



SOUTH CAROLINA GENERAL ASSEMBLY

Legislative Audit Council

LAC

February 2024

A LIMITED REVIEW OF THE SOUTH CAROLINA EDUCATION LOTTERY

INCLUDING A FOLLOW UP TO OUR:

- 2019 AUDIT
- 2018 AUDIT



Legislative Audit Council

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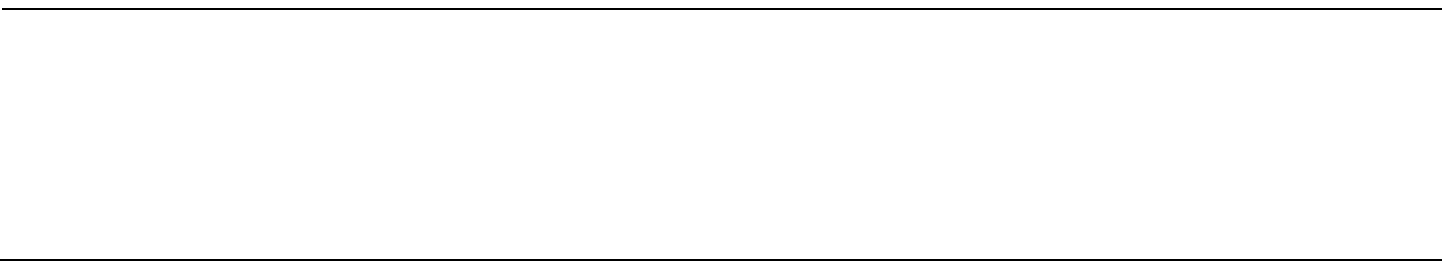
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Legislative Audit Council

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Introduction and Background

Audit Objectives

S.C. Code §§59-150-30(B) and 2-15-63(A) require the Legislative Audit Council to conduct a management performance audit of the South Carolina Education Lottery (SCEL) every three years. This audit was conducted based on this statutory requirement. LAC's most recent audit of SCEL was published in two reports:

A REVIEW OF THE SOUTH CAROLINA EDUCATION LOTTERY AND ITS OVERSIGHT OF RETAILERS AND PLAYERS June 2019

SOUTH CAROLINA'S USE OF EDUCATION LOTTERY ACCOUNT FUNDS June 2018

During this audit, we followed up on the status of the recommendations made in these audit reports.

During our preliminary audit work, we identified areas for review. Our audit objectives were to:

- Review the adequacy of internal controls implemented by the South Carolina Education Lottery for its oversight of lottery retailers.
- Compare the operations of the South Carolina Education Lottery with those of lotteries in other states to determine opportunities for improvement.
- Review the human resources' practices of the South Carolina Education Lottery to determine compliance with state law and equitable decision making.
- Determine the implementation status of recommendations made by the Legislative Audit Council in recent audit reports of the South Carolina Education Lottery.

Scope and Methodology

The period of our review was generally FY 18-19 through FY 21-22, with consideration of earlier or later periods, when relevant. We used the following sources of evidence:

- Interviews with SCEL’s employees.
- SCEL’s website, policies and procedures, human resources’ files, and documentation of undercover retailer compliance visits.
- Payroll records from SCEL’s third-party provider, Automatic Data Processing, Inc.
- Information from Sales Wizard, a customer relationship management software used by SCEL.
- State laws and regulations.
- Information from applicable federal or state agencies.
- Information from other states’ lotteries, including their websites.
- LAC’s survey of SCEL’s marketing sales representatives.
- LAC’s survey of a statistically-valid sample of lottery retailers.
- Data from the United States Census Bureau.
- La Fleur’s World Lottery Almanac, 2022 edition.

Criteria used to measure performance included state law, agency policy, practices in other states’ lotteries, and principles of good business practices. We reviewed a statistically-valid sample of undercover retailer compliance visits, in addition to investigations of retailer misconduct. Also, we reviewed the entire active population of personnel files for current SCEL employees. Our findings are detailed in the report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those generally accepted government auditing 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

S.C. Code §2-15-50(b)(2) requires us to review the effectiveness of an agency to determine if it should be continued, revised, or eliminated. We did not conclude from our review that SCEL should be eliminated; however, our audit includes recommendations for improvement in several areas.

Background

The South Carolina Education Lottery (SCEL) was established in 2001 and began selling lottery tickets in January 2002. SCEL's mission is to provide, with integrity, entertainment options to adults to support education in South Carolina. By law, net proceeds from the lottery must be deposited by the State Treasurer into a fund, separate from the state general fund, known as the "Education Lottery Account." The funds in the Education Lottery Account must be appropriated by the General Assembly to supplement but not supplant (replace) existing funds for education.

SCEL is governed by a board of commissioners consisting of nine members who serve staggered three-year terms. Commission members are appointed by the Governor, the President of the Senate, and the Speaker of the House, with each appointing three members.

Sales of Lottery Tickets

Lottery tickets are sold through retailers, such as gas stations, grocery stores, and convenience stores. Lottery retailers receive a 7% sales commission for every lottery ticket sold at their locations. An additional 1% commission is given to any retailer who sells a winning lottery ticket valued at \$10,000 or more, once the ticket is redeemed. However, the selling bonus for retailers is capped at \$50,000.

Persons must be at least 18 years of age to purchase lottery tickets. However, once lawfully purchased, lottery tickets may be given as gifts to a person of any age. We reviewed the number of lottery retailers in each county and the poverty rates for each county to determine if lottery retailers are disproportionately located in lower-income areas (see *Appendix C*). We did not find this to be true.

SCEL sells two types of lottery games, scratch-off games and draw games.

Scratch-Off Games

Scratch-off games, also known as instant games, involve scratching off the latex portion of a ticket to determine whether it is a winner. There are a variety of scratch-off games available for purchase with costs ranging from \$1 to \$20 per ticket. Sales of a \$20 lottery scratch-off ticket began in March 2023. SCEL introduces new scratch-off games each month, usually on the first Tuesday. Players have 90 days to redeem a scratch-off ticket for a prize once that particular game has ended. Some scratch-off tickets offer a second-chance promotion, but no retailer selling bonus can be earned.

Draw Games

Draw games are also known as terminal games, where each player is required to select a series of numbers or have the numbers selected by the terminal with a “quick pick.” A player is a winner when the selected numbers match the numbers randomly drawn by SCEL, Powerball®, or Mega Millions®. Prizes for terminal games must be claimed within 180 days after the draw date listed on the ticket. Draw games include:

Pick 3 Plus FIREBALL	CASH POP
Pick 4 Plus FIREBALL	Powerball®
Palmetto Cash 5	Mega Millions®

As Chart 1.1 shows, revenue from sales of scratch-off games exceeded sales of draw games in FY 21-22, the latest data available.

**Chart 1.1: SCEL’s Revenues,
FY 21-22**

REVENUES	AMOUNT (IN MILLIONS)	PERCENT
Scratch-off Games	\$1,599	70.8%
Draw Games	\$655	29.0%
Retailer Fees and Other *	\$4	0.2%
TOTAL	\$2,257	100.0%

Note: Amounts have been rounded.

* Other revenues are primarily licensing and telephone fees.

Source: SCEL’s Audited Financial Statement, FY 21-22

Redeeming Winning Lottery Tickets

There are several ways a winning lottery ticket can be redeemed for prizes. Any winning lottery ticket may be redeemed at SCEL’s claims center in Columbia, which is the state’s only claims center. The other options for redeeming a winning lottery ticket are based on the prize amount.

\$500 or Less	May be redeemed at any authorized lottery retailer location in the state.
\$100,000 or Less	May be redeemed by mail.
Over \$100,000	Must be redeemed in person at SCEL’s only claims center in Columbia.

When the winning ticket prize is over \$500, players must provide a:

- Completed claim form.
- Copy of a picture identification.
- Signature on the winning ticket.

SCEL’s Expenses

SCEL’s advertising expenses from FY 17-18 through FY 21-22 met the spending restriction imposed by state law. S.C. Code §59-150-60(A)(18) limits the amount SCEL can spend on advertising each year to no more than 1% of the previous year’s gross sales. SCEL’s advertising expenses were 0.5% or less for each of the fiscal years we reviewed, averaging 0.5%.

Per S.C. Code §59-150-350(A), as nearly as practical, SCEL must make no less than 45% of money from the actual sales of lottery tickets available as prize money. SCEL exceeded the spending threshold for lottery prizes during each fiscal year of the period under review, averaging 66% of lottery game sales.

As shown in Chart 1.2, 66% of SCEL’s expenses in FY 21-22 were for prize payouts, followed by 25% for transfers to the Education Lottery Account. Other expenses for SCEL include commissions and incentives to retailers and operating expenses. Included in operating expenses are costs of advertising, staff compensation, and lease payments.

Chart 1.2: SCEL's Expenses, FY 21-22

EXPENSES	AMOUNT (IN MILLIONS)	PERCENT
Prize Payments	\$1,487	66%
Transfers to the Education Lottery Account	\$562	25%
Commissions and Incentives to Retailers	\$159	7%
Operating Expenses *	\$28	1%
Other Game-Related Costs	\$24	1%
TOTAL	\$2,260	100%

Note: Amounts and percentages have been rounded.

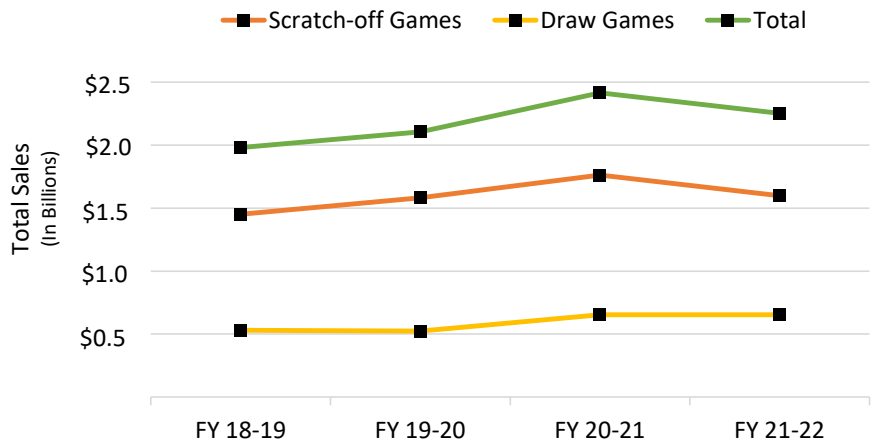
* Operating expenses include advertising and administrative expenses.

Source: SCEL's Audited Financial Statement, FY 21-22

Lottery Sales Trend

During FY 18-19 through FY 21-22, sales of lottery scratch-off games exceeded sales of draw games each year, as shown in Chart 1.3. Total lottery sales peaked in FY 20-21, possibly due to COVID-19 stimulus funds received by players. However, while total sales decreased the following year, draw game sales increased.

Chart 1.3: Revenues from Lottery Ticket Sales, FY 18-19 – FY 21-22

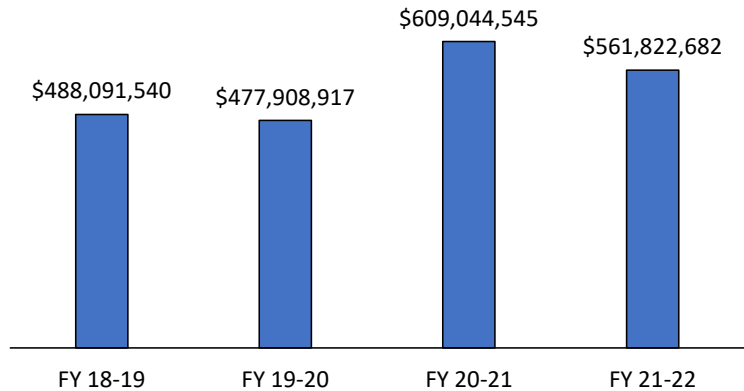


Source: SCEL's Audited Financial Statements, FY 18-19 through FY 21-22

Education Lottery Account Transfers

SCEL transferred over \$2 billion to the Education Lottery Account from FY 18-19 through FY 21-22. With the increase in lottery sales in FY 20-21, the amount transferred that year to the Education Lottery Account was at its highest during our period of review, as shown in Chart 1.4.

**Chart 1.4: Transfers to the
Education Lottery Account,
FY 18-19 – FY 21-22**



Source: SCEL's Audited Financial Statements, FY 18-19 through FY 21-22

Oversight of Lottery Retailers

Retailer Oversight

SCEL could improve its oversight of lottery retailers. We reviewed the reports written to document undercover retailer compliance visits conducted by SCEL from FY 14-15 through FY 21-22. Also, we reviewed the logs SCEL used to monitor retailer misconduct from FY 17-18 through FY 21-22 for a sample of lottery retailers. We found SCEL does not:

- Conduct undercover retailer compliance visits consistently.
- Ensure undercover retailer compliance visits are conducted in all counties.
- Investigate retailers that may have been involved in misconduct.
- Correct discrepancies in the reports it used to document undercover retailer compliance visits.

Additionally, SCEL has not adequately documented:

- Whether conditions imposed on retailers to address retailer misconduct had been implemented.
- The actions it took to address retailer misconduct.

SCEL needs to improve its oversight of lottery retailers to preserve the integrity of the lottery. During the exit process, LAC requested SCEL's comments and supporting documentation to be sent electronically. Instead, SCEL provided over 1,100 hard copy documents to be reviewed for retailer oversight, most of which had already been provided electronically to LAC during the audit. Money and resources spent on printing such a large volume of documents could have better been used to support education, in line with SCEL's mission.

Overview

SCEL's security and investigations department is responsible for researching and investigating allegations of retailer noncompliance with SCEL's rules, policies, and procedures. SCEL contracts with the South Carolina Law Enforcement Division (SLED) for the assignment of four agents who work in partnership with SCEL's security and investigations department to conduct investigations of alleged criminal violations of the South Carolina Education Lottery Act and other laws.

SCEL’s security specialists are responsible, in part, for:

Handling investigations of potential retailer misconduct reported by players, violations of lottery rules, and other suspicious activity.

Blocking missing or stolen tickets from being claimed for a prize.

Completing a written report of each incident.

Forwarding allegations of criminal activity to a SLED agent for further review.

SCEL’s executive director, security and investigations department, and legal department determine the appropriate disciplinary actions when retailer misconduct is identified. However, the executive director makes the final determination.

SCEL’s retailer contract prohibits retailers, its employees, or a person acting on the retailer’s behalf, from purchasing a ticket from a player for less than the total prize amount and attempting to claim a prize, regardless of the amount of the winnings. SCEL may suspend or revoke the license of any lottery retailer who sells a ticket at a price greater than or less than the price stated by the lottery commission, or for theft and/or fraud. However, it must provide retailers a right to a hearing to appeal this decision.

Undercover Retailer Compliance Visits Not Consistently Conducted and Not Conducted in Every County

SCEL has not consistently conducted undercover retailer compliance visits and has not conducted them in every county. We reviewed the summaries of undercover retailer compliance visits conducted from FY 14-15 through FY 21-22 of SCEL’s approximately 4,000 lottery retailers in 2022. Each summary covered multiple days and included multiple retailers. However, the summary page SCEL used to document its undercover visits did not clearly indicate its purpose because the title is SCEL Incident Report, and the incident type is listed as Retailer Compliance Investigation. During the exit process, SCEL stated an undercover visit is not an investigation until some prohibited conduct occurs.

Although SCEL began conducting undercover retailer compliance visits in FY 14-15, it only conducted undercover visits to 1,068 retailers, sporadically, between November 2014 and September 2021, with none conducted in some years, as shown in Chart 2.1. An SCEL official stated no undercover compliance visits were conducted during the COVID-19 pandemic. However, most, if not all, lottery retailers would have been deemed an essential business during the pandemic and would have remained operational.

After May 2019, we found no undercover compliance visits were conducted until June 2021. During the exit process, SCEL stated it only planned for undercover visits every other year, and 2020 was never planned as an undercover year.

These undercover visits were intended to determine if the retailer would offer to purchase a lottery ticket with a \$1,000 winning value from a player for less than the winning value of the ticket. These undercover visits resulted in 16 retailer license revocations. Of these revocations, 14 retailers purchased a lottery ticket from a player for less than the prize value and 12 of the 14 retailers received a suspended license with a path to re-licensure after it appealed SCEL’s decision (see *Conditions Imposed to Address Lottery Retailers’ Misconduct Not Adequately Monitored*).

We asked SCEL why the agency has not conducted undercover retailer compliance visits with much consistency and frequency. An agency official told us logistics and the life cycle of the lottery game used during undercover visits impact the consistency and frequency of the visits. Additionally, the official told us the agency does not ensure all retailers have been routinely visited for an undercover retailer compliance visit, and the agency needs additional staff to conduct more frequent visits.

Chart 2.1: Number of Undercover Retailer Compliance Visits, FY 14-15 – FY 21-22

MONTH/YEAR	NUMBER OF RETAILERS VISITED
November 2014	103
January 2015	98
March 2015	121
April 2015	25
January 2019	137
February 2019	120
April 2019	139
May 2019	22
June 2021	68
July 2021	119
August 2021	95
September 2021	21
TOTAL	1,068

Note: During the exit process, SCEL stated it had conducted 1,124 undercover visits, and provided spreadsheets of “scanning history” as documentation, claiming there had been 56 additional visits. However, the documentation did not provide compelling evidence to support a change to LAC’s analysis.

Source: LAC Analysis of Documentation from SCEL

Five Counties Not Visited for an Undercover Retailer Compliance Visit

SCEL has not conducted undercover retailer compliance visits in every county. SCEL has not conducted undercover retailer compliance visits in:

Allendale, Anderson, Barnwell, Edgefield, or Hampton counties

Although these five counties have not been visited, SCEL conducted undercover retailer compliance visits three or more times in:

Lexington, Orangeburg, Richland, Horry, Aiken, Dorchester, Fairfield, Marion, Spartanburg, and Kershaw counties

Additionally, during undercover retailer compliance visits, SCEL visited 88 retailers more than once even though it had not visited a majority of its retailers even one time. Chart 2.2 shows the counties SCEL has conducted undercover retailer compliance visits in from FY 18-19 through FY 21-22.

During the exit process, SCEL stated its analysis showed Hampton County was the only county not visited. However, SCEL did not provide sufficient documentation for the other counties it said were visited.

According to the agency, its goal is to conduct an undercover compliance visit on 10% of its retailers biannually (every two years) or 5% of its retailers annually. Failing to frequently conduct undercover retailer compliance visits and failing to ensure that every retailer has been visited for an undercover retailer compliance visit over a period of time may limit the agency's ability to detect, and possibly prevent, retailer misconduct.

Undercover Compliance Visits Not Conducted on Retailers Involved in Possible Misconduct

SCEL has not conducted undercover compliance visits on retailers that may have been involved in misconduct. SCEL officials provided us with several reasons why retailers are selected for undercover retailer compliance visits, which include if the retailer:

- Received a player complaint.
- Appeared on the high-volume claimant list.
- Appeared on the logs the agency uses to monitor retailer misconduct and contract compliance violations.
- Had been identified for suspected misconduct by SLED agents.

We found that although certain retailers were identified on the logs SCEL used to monitor possible retailer misconduct, those retailers were not visited during undercover retailer compliance visits. In our randomly-selected, judgmental sample of 75 retailers, we found:

33	Retailers were not visited during an undercover compliance visit but were flagged for suspected misconduct.
3	Retailers were included in SCEL's missing ticket log more than once but were not visited during an undercover compliance visit.
2	Retailers with leading lottery sales appeared on more than one log but were not visited during an undercover compliance visit.

We found SCEL has a reactive approach to addressing retailer misconduct. Therefore, having a proactive approach would improve the agency's oversight of retailers involved in misconduct. Additionally, a proactive approach could prevent retailers that have not committed misconduct from violating SCEL rules, policies, and procedures if they feel the agency may identify their misconduct during undercover compliance visits.

We found more than half of the retailers in our randomly-selected, judgmental sample of 22 retailers that SCEL investigated for reports of missing tickets or potential contract compliance violations were in counties where the agency had never conducted any undercover retailer compliance visits. Without regularly conducting undercover retailer compliance visits that include every county over a period of time, there is the potential that the agency may not identify or reduce retailer misconduct.

Conditions Imposed to Address Lottery Retailers' Misconduct Not Adequately Monitored

SCEL does not adequately monitor the conditions it imposes on lottery retailers to address retailer misconduct. During our review of undercover retailer compliance visits, we identified 12 retailers that appealed SCEL's decision to revoke their lottery retailer licenses and instead received suspended licenses with a path to re-licensure if certain conditions were met. If these conditions were not met, the retailer could risk license termination without the right to an appeal. We asked SCEL what steps it took to track the conditions required as a contingency for a retailer's license to be reinstated and found SCEL:

Suggested a retailer develop procedures to ensure its employees comply with SCEL protocols and procedures. However, SCEL did not enforce this requirement.

Required a retailer to ensure its employees are trained by SCEL prior to accessing lottery inventory or equipment. However, SCEL did not track whether the training occurred.

Required a retailer to ensure it trains its employees on SCEL rules and regulations, including signed employee acknowledgments. However, SCEL did not track whether acknowledgments were signed and that the training occurred.

Required a retailer to ensure it conducts reasonable background checks on employees who handle lottery transactions. However, SCEL did not verify whether background checks occurred.

We asked SCEL officials how the agency tracks these conditions and were told the licensing department and the sales and retailer relations department are responsible for tracking these requirements. Conversely, licensing officials were unable to provide evidence that the agency tracked any conditions it imposed, and sales and retailer relations officials stated marketing sales representatives (MSRs) are required to investigate sales compliance but do not have an immense role in monitoring retailer misconduct. Not tracking or enforcing the conditions the agency imposes to address retailer misconduct jeopardizes the integrity of the lottery and SCEL's security and investigation initiatives.

Actions to Address Retailer Misconduct Not Adequately Documented

SCEL does not adequately document the actions it takes to address retailer misconduct, nor does it use a centralized case management system to track retailer misconduct investigations. We reviewed the logs SCEL used to track incidents of suspected retailer misconduct, contract compliance violations, and reports of missing tickets from FY 17-18 through FY 21-22 for a randomly-selected, judgmental sample of 75 lottery retailers. We found that although nearly three-fourths of the retailers in our sample were included on at least one of the logs SCEL used to monitor retailer misconduct, the agency only visited one-third of those retailers during undercover retailer compliance visits. Therefore, 33 of 75 retailers (44%) in our sample were listed on SCEL's logs used to monitor retailer misconduct but had not undergone an undercover compliance visit by SCEL during the period we reviewed.

According to an SCEL official, staff in the security and investigations department use a spreadsheet to track instances of misconduct. The same official stated a case management system would offer a more streamlined process. This official also told us the agency is looking into purchasing a case management system, but did not confirm a timeline. During the exit process, SCEL stated it currently uses a case management system, CaseInfo by CI Technologies, in conjunction with Microsoft Office® products. However, no mention of currently using a case management system was made during our interviews with any SCEL staff, nor did the documentation SCEL provided during the exit process indicate it was obtained from CaseInfo.

We found SCEL has not consistently indicated what further action it took to address instances of suspected retailer misconduct, contract compliance violations, and reports of missing lottery tickets. For example, SCEL's records for nearly half of the lottery retailers in our sample that SCEL investigated for reports of missing tickets or suspected retailer misconduct did not indicate what further follow-up action was taken by SCEL. Improving the method the agency uses to document the actions it takes to address retailer misconduct, specifically but not exclusively through a centralized case management system, can ensure the agency adequately monitors retailer misconduct investigations in a manner that is consistent and can be accessed across the agency.

Discrepancies Included in Incident Reports Documenting Undercover Retailer Compliance Visits

SCEL had discrepancies in the reports it uses to document undercover retailer compliance visits. We found instances of incorrect retailer information on incident reports due to an SCEL error. According to our analysis, there were 11 instances where SCEL included an incorrect name or retailer identification number on an incident report documenting undercover retailer compliance visits. These errors could prevent SCEL from accurately identifying and documenting retailer misconduct.

Recommendations

1. The South Carolina Education Lottery should conduct undercover retailer compliance visits on at least 5% of all lottery retailers annually.
2. The South Carolina Education Lottery should revise the form used to document its undercover retailer compliance visits to accurately reflect its undercover operations.
3. The South Carolina Education Lottery should develop formal policies and procedures to ensure lottery retailers in all counties are visited during undercover retailer compliance visits annually.
4. The South Carolina Education Lottery should develop formal policies and procedures to ensure lottery retailers previously involved in misconduct are visited during undercover retailer compliance checks.
5. The South Carolina Education Lottery should track whether a retailer implements the conditions the agency imposes after a retailer is involved in misconduct.
6. The South Carolina Education Lottery should implement a new centralized case management system to track the investigations, actions taken, and conditions imposed related to retailer misconduct.
7. The South Carolina Education Lottery should establish internal controls to ensure its security and investigations department staff verify identifying retailer information is accurate to reduce the likelihood of errors when documenting retailer misconduct.

Role of Marketing Sales Representatives

We reviewed the marketing sales representatives' (MSR) role in SCEL's oversight of lottery retailers and found SCEL fails to:

- Require MSRs to document interactions with retailers.
- Verify MSRs document the completion of tasks during visits to lottery retailers.
- Use Sales Wizard™ software to its full capacity.
- Ensure MSRs train all lottery retailer staff on agency rules, policies, and procedures.

The MSRs for SCEL are the primary link between SCEL and lottery retailers. MSRs routinely visit lottery retailers across the state to resolve problems the retailer may have and to assist in maximizing the sale of lottery tickets.

Overview

Each MSR is assigned an average of 100 stores and generally visits retailers every two weeks during their scheduled routes. While visiting a retailer, MSRs are responsible for:

- Validating a retailers' instant lottery ticket (scratch-off) inventory is stocked and up to date.
- Ensuring required SCEL signage is displayed.
- Ensuring lottery terminals and displays are clean.
- Speaking with the store manager to discuss sales, new games, promotions, new policies, and training topics.

Regional sales managers are responsible for managing MSRs. Regional sales managers routinely conduct store visits and randomly travel service routes with MSRs to evaluate their performance and interactions with retailers. In 2020, MSRs began using a software application, Sales Wizard, to document the tasks they complete during retailer visits. According to an SCEL official, Sales Wizard is the "lifeline of accountability." Regional sales managers review service history reports in Sales Wizard to determine whether MSRs are visiting their stores routinely on a biweekly basis and are completing required tasks at each visit.

MSRs' Documentation of Retailer Interactions Lacks Detail

SCEL does not require MSRs to document interactions with retailers. According to an SCEL official, MSRs are encouraged to document each visit in Sales Wizard, but it is not required. We reviewed the service history reports in Sales Wizard for ten retailers that received a license revocation or suspension as a result of retailer compliance investigations to identify how long MSRs were typically at a store during visits, how many tasks MSRs completed during store visits, and what details they notated regarding store visits. Although, on average, MSRs spent 20 minutes at a store during a visit and completed four tasks, some MSRs' visit notes do not provide details on the specific tasks they completed. Additionally, for 26% of visits, MSRs did not list who they met with at the retailer, even though only 14% of store visit notes mentioned that the manager was unavailable.

We randomly selected 25 lottery retailers for which we reviewed the notes section in Sales Wizard, a separate area where MSRs can enter additional notes. Notes had not been entered for 15 of 25 (60%) of the retailers. While recognizing entering additional notes may not be necessary for each MSR visit, this is an area where important information could be tracked by MSRs and SCEL management.

SCEL Does Not Verify that MSRs Document the Completion of Tasks During Retailer Visits

SCEL does not verify that MSRs document the completion of tasks during retailer visits. We asked SCEL how MSRs document their visits to retailers and were told, prior to Sales Wizard's implementation, MSRs signed on to the lottery terminal to verify that they were physically present at a retailer. Although MSRs still sign on to the lottery terminal, they now document their visits through the Sales Wizard service history as well.

Although regional sales managers review service history reports in Sales Wizard to verify MSRs' time and attendance and to review MSRs' documentation of retailer visits, an SCEL official stated there are not any required tasks that MSRs must complete in Sales Wizard. Upon our inquiry, the same SCEL official did not provide the titles of which reports from Sales Wizard were regularly reviewed by management and by whom. Determining which reports from Sales Wizard are most useful to SCEL's mission and reviewing those reports at least quarterly would add to SCEL's oversight of MSRs and retailer interactions.

During our review of Sales Wizard service history reports, we found SCEL does not ensure there is an accurate record of MSR's interactions with retailers in Sales Wizard. MSR's are responsible for maintaining a relationship with retailers on behalf of the agency. Although regional sales managers review MSR's interactions with the retailers during on-site store visits, verifying that MSR's have documented the completion of tasks during retailer visits allows the agency to track interactions with lottery retailers. Routine verification also confirms that MSR's complete their job duties when regional sales managers are not present.

Sales Wizard Software Not Used to Its Full Capacity

Regional sales managers did not consistently use Sales Wizard to document their visits to retailers. We reviewed sales history reports for ten retailers and found two visits that regional sales managers documented in Sales Wizard. Although our review was limited, SCEL officials confirmed that regional sales managers do not consistently document visits in Sales Wizard. According to these officials, they only document notes in Sales Wizard about retailer visits if there was an issue during store visits.

Consistently documenting retailer visits in Sales Wizard is a valuable way of tracking retailer interactions and potential suspicious activity. Furthermore, documenting the name of the employee the MSR met with during a retailer visit may be a vital way of identifying employees who commit future misconduct. Improving SCEL's internal controls regarding MSR's and regional sales managers' use of Sales Wizard would ensure there is an accurate record of interactions with retailers. Taking these steps adds value to the benefits of using Sales Wizard at no additional cost.

Inadequate Training of Lottery Retailers

SCEL does not ensure MSR's train all retailer staff on agency rules, policies, and procedures. MSR's conduct initial training for new lottery retailers. During initial training, MSR's review lottery games, procedures, statutory requirements, terminal operation, and how to sell lottery products successfully and lawfully. The employees who are trained at a lottery retailer varies as MSR's can only train those available at the time of the training. After the initial training, it is the responsibility of the lottery retailer to train any additional staff, especially since retailers may have frequent employee turnover. MSR's conduct additional training as needed, but there is no ongoing formal training for retailers.

Recommendations

8. The South Carolina Education Lottery should implement formal policies and procedures identifying tasks marketing sales representatives and regional sales managers should complete when interacting with retailers.
9. The South Carolina Education Lottery should determine which reports from Sales Wizard are most useful to its mission and should review those reports at least quarterly.
10. The South Carolina Education Lottery should implement formal policies and procedures requiring marketing sales representatives to document the tasks completed during retailer visits in Sales Wizard.
11. The South Carolina Education Lottery should implement formal policies and procedures requiring regional sales managers to verify marketing sales representatives adequately document, in Sales Wizard, the tasks completed during retailer visits.
12. The South Carolina Education Lottery should require all retailers to maintain signed employee acknowledgments that they have trained their staff on lottery rules, policies, and procedures.
13. The South Carolina Education Lottery should monitor completion of signed employee acknowledgments annually to ensure retailer employees are trained by store management.

Lottery Retailer Advisory Board

We found the Lottery Retailer Advisory Board has not been active since its initial meeting in 2002. The advisory board, to be composed of lottery retailers, was authorized in the South Carolina Education Lottery Act upon its inception in 2001. However, we determined the Lottery Retailer Advisory Board is no longer necessary to authorize in state law.

Retailer Advisory Board Composition and Purpose

The General Assembly established the advisory board, its structure, and its function in S.C. Code §59-150-110. Upon appointment by the Governor, ten lottery retailers serve terms of two years on the retailer advisory board. The members should represent a broad spectrum of geographical, racial, gender, and business characteristics.

The advisory board was established to present lottery retailers' concerns and to advise the lottery board (commission) on retail aspects of the lottery. The advisory board sets its own rules and internal operating procedures. The members serve without compensation, which includes no reimbursement for travel expenses. Additionally, state law allows for the lottery commission to invite the retailer advisory board to make an oral presentation at regular meetings of the commission.

Lottery Retailer Advisory Board Inactive

An SCEL official stated the advisory board has only met one time, which was in 2002, as the lottery's operations were being implemented in the state. Because the advisory board has not been active for over 20 years, it is no longer beneficial to have it authorized in state law. This is particularly evident with the results for our lottery retailers' survey indicating the majority of retailers are satisfied with their interactions with SCEL and with SCEL's operations (see *Survey of Lottery Retailers* and *Appendix B*).

Recommendation

14. The General Assembly should amend state law to eliminate authorization of the Lottery Retailer Advisory Board in S.C. Code §59-150-110.

Survey of Lottery Retailers

We surveyed a sample of lottery retailers to determine the retailers' perception of SCEL and the retailers' interactions with SCEL. We found:

- The majority of respondents are satisfied with the training provided by SCEL.
- Several respondents have issues with lottery products or equipment.
- Four respondents feel the commission paid to retailers should be increased.

We also found SCEL does not maintain email addresses or mailing addresses for each physical lottery retailer location in South Carolina. As a result, we were unable to send the survey via email and received several mailed surveys back as undeliverable.

Retailer Survey Results

According to documentation provided by SCEL, there are 4,170 lottery retailers in South Carolina. We surveyed a statistically-valid, judgmental sample of 352 lottery retailers via the U.S. Postal Service in July 2023. Twenty-six surveys were returned as undeliverable. We received responses from 101 of 326 surveys delivered to lottery retailers. Some respondents did not answer every question. The overall response rate was 31%.

The survey consisted of 13 multiple choice questions and 1 open-ended question. Our survey questions were designed to determine the retailers' perception of SCEL, interactions with SCEL, and opportunities for improvement.

We inquired about the frequency and duration of SCEL's marketing sales representatives' store visits. Chart 2.3 shows our findings.

Chart 2.3: Frequency and Duration of MSR Store Visits

MSR STORE VISITS	% OF RESPONDENTS
Frequency of Visits	17% (17 of 101) weekly.
	53% (54 of 101) biweekly.
	30% (30 of 101) monthly.
Duration of Visits	11% (11 of 100) less than 10 minutes.
	55% (55 of 100) more than 10 but less than 20 minutes.
	28% (26 of 100) more than 20 but less than 30 minutes.
	6% (6 of 100) more than 30 minutes.

Source: LAC's Survey of Lottery Retailers

Most respondents (84%) also stated SCEL is always available for questions after a store visit, while two retailers stated SCEL is rarely available for questions after a store visit. Additionally, we asked how frequently the lottery retailers initiate contact with SCEL—53% of retailers responding to this question stated contact is initiated monthly while 42% of retailers stated contact is never retailer initiated.

We solicited feedback on SCEL’s interactions with, and support for, the lottery retailers and found:

94%	Stated SCEL clearly explained its policies and procedures regarding lottery sales.
98%	Stated they were satisfied or very satisfied with SCEL sales training.
96%	Stated SCEL addresses questions or complaints in a timely and effective manner.
82%	Stated SCEL is proactive and actively asks for the input of lottery retailers when considering amending policies and procedures that would affect the retailers.

We received 16 responses to the open-ended question seeking concerns, comments, or suggestions related to SCEL’s interactions with retailers.

2	Retailers provided feedback that SCEL is unavailable for assistance.
1	Response received stated “when it comes to retailers SCEL is least concerned about it.”
Several	<p>Respondents noted issues with:</p> <ul style="list-style-type: none"> • The lottery product, such as not including “big winners” to “high selling volume stores” and “the needed and required books” (packs of lottery tickets) not being sent to stores. • The lottery equipment, such as poor connection to the lottery machine (terminal) or the Powerball® sign not working.

Additionally, four respondents stated the commission paid to lottery retailers should be increased. However, the current retailer commission of 7% for South Carolina is similar to the retailer commissions in surrounding states as illustrated in Chart 2.4.

Chart 2.4: Lottery Retailer Commission Rates

LOTTERY RETAILER COMMISSION RATE	STATE
7%	South Carolina
7%	North Carolina
6%	Georgia
5%	Florida

Source: *La Fleur's World Lottery Almanac*, 2022; LAC Analysis

We found only one state, Oregon, offers a higher retailer commission at 8%, making South Carolina very competitive in its retailer commission rate. The full results of the lottery retailer survey are in *Appendix B*.

Lottery Retailers' Email and Mailing Addresses Are Not Maintained

SCEL does not maintain a comprehensive list of lottery retailers' email addresses or mailing addresses for the physical lottery retailer locations. The email and mailing address on file with SCEL could be for the operational manager, who may or may not be the owner, or for agents acting on their behalf, such as certified public accountants. Additionally, SCEL does not require an email address to be maintained for individual lottery retailers. As noted above, the lack of retailer email addresses and mailing addresses resulted in the inability for some retailers to participate in our survey.

We contacted North Carolina, Georgia, and Florida to ask if they maintain a comprehensive list of lottery retailer email addresses. Only Florida responded and stated email addresses are maintained for the lottery retailers. Maintaining a comprehensive list of email addresses for all lottery retailers would provide SCEL and its auditors a quick and direct method of contacting the lottery retailers.

Recommendations

15. The South Carolina Education Lottery should establish and maintain a comprehensive list of email addresses for all lottery retailers.
16. The South Carolina Education Lottery should require lottery retailers to provide a direct mailing address for each store location.

Survey of SCEL’s Marketing Sales Representatives

Overview of Survey Results

SCEL could improve its training of marketing sales representatives (MSRs) and provide them with more convenient technology for use on retailer visits. MSRs build relationships with lottery retailers and are the primary link between SCEL and the lottery retailers. According to the objectives of an MSR in SCEL’s guidelines, MSRs play a key role in the day-to-day function of the lottery.

We surveyed all 37 MSRs using SurveyMonkey® and had a 73% response rate. A survey link was emailed separately to each of the 37 MSRs. The questions were designed to obtain anonymous feedback on SCEL’s operations and to identify opportunities for improvement. The open-ended survey responses were summarized and referenced throughout the report. The detailed results of the survey are in *Appendix A*.

MSRs indicated a need for improvements in training and policies. Many respondents to our survey of MSRs had been employed by SCEL for more than 15 years (37%), including holding the position of MSR for more than 15 years (33%). As shown in Chart 2.5, the majority of respondents indicated additional training sessions after the initial training would be beneficial to MSRs. In the survey responses, 52% of respondents said training should be provided annually. Overall, respondents indicated SCEL keeps MSRs informed of policy changes and new lottery products.

Chart 2.5: MSR Survey Results

DESCRIPTION	RESPONSES OF AGREE/STRONGLY AGREE
SCEL's training program adequately prepared me for my job duties as a marketing sales representative.	67%
After initial training as a new employee, additional training sessions would be beneficial to the role of a marketing sales representative.	85%
I am informed in a timely manner when there are policy changes made by SCEL.	74%
SCEL informs me about new lottery products, including instant ticket games, so that I am adequately prepared to respond to questions from lottery retailers.	81%

Source: LAC’s Survey of Marketing Sales Representatives

The survey results also indicate that MSR's are aware their role includes identifying misconduct by retailers and conveying the information to SCEL's security department. All respondents agreed (33%) or strongly agreed (67%) that their regional sales manager was available for assistance when needed. The majority of MSR's indicated they have adequate time during work hours to address the needs of the lottery retailers on their assigned routes.

The top responses to open-ended questions show:

Training for MSR's could be improved with the implementation of a mentoring program and by having a manual to reference.

The number of lottery retailers on an MSR's route could range from 88 to 120.

Management could be improved by being more accepting of change and should seek the input of MSR's.

The use of tablet computers instead of laptops would be more convenient and allow for better time management.

Additional changes would be beneficial, such as adding a sales bonus and promotional items; moving to a three-week cycle for retailer visits; and having better communication between SCEL's departments.

MSR's are Vital to SCEL's Success

It is important for SCEL to adequately train and support its MSR's because the role of an MSR is vital to the success of the lottery in the state. As the results of our survey indicate, many of the MSR's have been SCEL employees for over 15 years. By requiring training on a regular basis, SCEL would be ensuring its MSR's are up to date on the most current lottery sales' approaches and lottery products, possibly increasing lottery sales and providing additional funds for education.

MSR's should have the most convenient technology available to perform their job duties while visiting a lottery retailer's location. An MSR's duties involve ensuring the lottery displays are filled, the lottery terminals are clean, and the required lottery signage is in place. This means the MSR's must move throughout the store. If MSR's had a tablet computer to carry as they observed the retailers' locations, they could make notes in Sales Wizard at that moment (see *Role of Marketing Sales Representatives*). Currently, the MSR's have laptops but tablets would be the most convenient to carry and may encourage better documentation of interactions with retailers.

Recommendations

17. The South Carolina Education Lottery should provide annual training for its marketing sales representatives.
18. The South Carolina Education Lottery should provide tablet computers for its marketing sales representatives.

Human Resources and Other Administrative Areas

Human Resources

We reviewed SCEL's human resources' (HR) functions and all personnel files for active employees. We found SCEL:

- Does not have a comprehensive HR policies and procedures manual.
- Has not defined, in policy, what constitutes a clear background investigation.
- Failed to conduct name-based criminal records checks prior to hire.
- Does not conduct recurring criminal records checks to ensure employees' criminal histories are unchanged.
- Did not conduct employee performance evaluations from 2009 through 2022.
- Failed to notify affected employees of their missing confidential personnel files.
- Failed to adhere to its personnel file checklist which indicates if required forms are in the file.
- Failed to retain documentation to justify pay increases.

An SCEL official stated the agency is in the process of migrating from hard copy paper personnel files to a digital database. During our audit, we confirmed this process by reviewing both physical and digital personnel files. However, we found there was confusion among HR employees about the process to indicate which paper files had already been scanned because there were no written instructions.

During the exit process, LAC requested SCEL's comments and supporting documentation to be sent electronically. Instead, SCEL provided almost 3,000 hard copy documents to be reviewed for human resources, most of which had already been provided electronically to the LAC during the audit. Money and resources spent on printing such a large volume of documents could have better been used to support education, in line with SCEL's mission.

No HR Policies and Procedures Manual

SCEL does not have a formal, written policies and procedures manual governing its internal HR practices. We requested all of SCEL's HR policies and procedures. SCEL provided documentation which included:

A list of links to all federal employment laws.

Links to state-specific, employee benefit information such as leave benefits, insurance, and retirement.

The agency's Employee Handbook, last updated in 2011.

An overview narrative of HR and payroll procedures, provided to an outside audit company in June 2022.

We verified with an SCEL official that we were provided the entirety of the agency's HR policies and procedures manual. The SCEL official confirmed any additional information on processes was samples of forms and handwritten notes. The official offered to answer questions about any unwritten policy, procedure, or practice. However, policies and procedures should be documented in writing as a formal guide for the agency's operations.

HR policies and procedures add structure and consistency in employment matters, reducing potential liability. Policies guide employees and leadership and help to ensure everyone is treated fairly and consistently. HR policies and procedures provide a fair compensation structure, a framework for how to respond to personnel issues, and ensure employees are adequately trained to meet the required skills. According to best practices, regular HR audits can also help identify whether an HR department's practices and processes are adequate, legal, and effective.

While SCEL has an employee handbook, it does not have a similar, formal policies and procedures manual to guide leadership through various functions, such as recruitment and retention, distribution of pay increases, and execution of performance evaluations. An employee handbook is not an adequate alternative to an HR policies and procedures manual. Employee handbooks are written in a simple, straightforward manner that makes for easy referencing by employees. Handbooks should include basic company policies and expectations, benefit programs, acceptable and unacceptable behavior, and any disciplinary processes. Alternatively, the HR policies and procedures manual is a tool for HR and the leadership team that details all aspects of company policy, including the forms needed to complete each process. It is best practice for an agency to have written HR policies and procedures to provide structure and consistency for employment matters.

Policy Needed on Criminal Background Checks

SCEL’s employment offer letter states offers of employment are “contingent upon a clear background investigation.” SCEL has not defined, in policy, what constitutes a clear background investigation for applicants.

We reviewed all personnel files for SCEL’s 120 active employees, as of June 2023. We found 2 of the 120 active employees had criminal convictions of fraudulent checks which occurred nine or more years prior to hire. Another three files showed arrest/criminal records, but did not contain a complete disposition, making it impossible to determine the status of the charges.

Failure to Conduct Name-Based Criminal Records Checks

SCEL does not consistently conduct name-based criminal records checks prior to hire, as required by state law. Of the 120 active employees’ files reviewed, we found 35 (29%) employees did not have a criminal record check conducted prior to hire. Further, 11 of those employees have never had a criminal records check. We also found 25 (21%) employees submitted their employment application on or after their hire dates, furthering the inability to perform the criminal records check prior to hire.

S.C. Code §59-150-100 of the South Carolina Education Lottery Act states a person convicted of a felony, bookmaking, or other forms of unlawful gambling must not be employed by the commission. Without a criminal records check, it is unclear if an individual being considered for employment has been convicted of crimes which would prohibit employment.

While SCEL has no policy on how often to perform criminal records checks on its employees, SCEL only performs a criminal record check once, usually around the time of hire, if at all. We compared South Carolina’s practices to other states and found the Florida State Lottery’s Division of Security performs criminal record checks on all lottery employees on a four-year cycle, according to the employee’s hire date. Conducting criminal records checks on a recurring basis ensures all employees remain in compliance with state law.

Failure to Conduct Employee Performance Evaluations

SCEL failed to conduct employee performance evaluations from 2009 through 2022. SCEL indicated in a December 2019 independent review by Elliott Davis on system and organizational controls at SCEL that “human resources or a designee conducts performance appraisals at least annually and may conduct additional reviews when there is a change in job title or significant responsibilities.”

However, we found performance evaluations for SCEL’s employees had not occurred since 2008. According to an SCEL official, in 2009 SCEL’s former agency director made a request to the board of commissioners for employee performance evaluations to cease due to a concern with the accuracy of the review. SCEL officials stated from 2009 through 2022, any performance issues, pay increases, or promotions were addressed as needed, based on a supervisor’s judgment, instead of on a formal evaluation process.

We found the last performance evaluations had been conducted in 2008 for employees hired prior to the cessation of performance reviews. Those employees, and all employees who were hired after the cessation, did not have a performance review between 2009 and 2022. We determined from our review that employee performance evaluations were restarted in 2023. An SCEL official explained employee performance evaluations have been revised to include not only the quality of work but task-oriented or goal-oriented reviews, dependent on the job duties of the employee. During the exit process, SCEL stated performance evaluations were conducted on two employees reporting directly to the board during the cessation of all employee evaluations; however, SCEL did not provide any documentation to support the performance evaluations for either of the two positions reporting directly to the board.

Missing Personnel Files

SCEL failed to notify eight employees that their confidential personnel files were missing. During our review of personnel files, we found three files containing forms indicating the files were re-created “February 13, 2015” because the original files could not be located. Upon asking about the re-creation, SCEL officials stated that in 2014 the contents of eight confidential personnel files were determined to be missing, so replacement files were created in February 2015. We found that three of the affected employees remain employed at SCEL.

SCEL officials believe the content of the files were shredded due to the proximity of where the empty personnel file folders were found and the shredder. An SCEL official stated the employee believed to be responsible for the disappearance of the files was observed shredding paperwork prior to separating from the agency. Another SCEL official determined the “solid circumstantial evidence of destruction” lent itself to the fact the files were shredded by a former employee. Therefore, since the files were not believed to be removed from the agency, no efforts were made to notify the affected employees of the missing confidential files.

We found no actions, such as free credit monitoring, were taken to protect the affected employees from any adverse effects of the possible unauthorized disclosure of personally identifying information. When asked about the missing personnel files, SCEL leadership warned us that “bringing up certain things exposes SCEL to potential lawsuits, which takes money away from education.” SCEL’s audit department had not considered the HR area as high risk and had not been informed by SCEL of the missing personnel files until we requested information about them.

Failure to Adhere to SCEL's Personnel File Checklist

SCEL failed to adhere to its personnel file checklist. According to an SCEL official, the personnel file checklist is used when onboarding new employees. We reviewed personnel files to ensure all listed documents are completed, signed, and included in each employee's personnel file. The personnel file checklist includes, but is not limited to:

- Employment application.
- Reference check.
- Non-disclosure agreement.
- Addendum to employment notice.
- Internal work order.
- Offer letter.

We reviewed all 120 personnel files for active employees and found 97% (116) of active employees' files were missing at least one piece of required documentation listed on the SCEL personnel file checklist. Of those files, 69% (83) were missing more than one piece of required documentation. During the exit process, an SCEL official stated that no file is missing federally required documents; however, during our onsite review and review of digital personnel files, no federal forms were included. SCEL did not provide any documentation to the contrary during the exit process. However, other missing required documentation was provided during the exit process.

We found 66 files were missing a reference check. During the exit process, SCEL stated it uses five methods of reference checks, which include verification of employment; however, an employment verification and a reference check are not interchangeable terms or actions. Details of documentation missing from personnel files is shown in Chart 3.1.

Maintaining proper documentation in personnel files is important because most lawsuits faced by organizations, according to an article from the Society for Human Resource Management, involve issues related to hiring, performance management, discipline, or termination. We contacted the S.C. Human Affairs Commission in reference to any pending allegations of discriminatory behavior against SCEL and found one active investigation is pending.

Chart 3.1: Missing Documentation from Personnel Files

DOCUMENTATION	MISSING	
	NUMBER	PERCENT
Employment Applications	7	6%
Reference Checks	66	55%
Non-Disclosure Agreements	8	7%
Addendum to Employment*	10	8%

* States SCEL's employees and their families residing as a household cannot purchase tickets or claim prizes for the South Carolina Education Lottery.

Source: LAC Analysis of SCEL's Personnel Files

In addition to missing documentation as required by the personnel file checklist, we found SCEL did not complete all relevant fields of its payroll action forms. We reviewed the payroll action forms for all 120 active employees and found 101 employee files had forms missing pertinent identifying information, such as:

- Date completed.
- Employee's department.
- Social security number (or other unique identifier).
- Address.
- Birth date.
- Phone number.
- Gender.

Employee Pay Increases

SCEL failed to document justifications for pay increases. Due to time constraints and the complexity of the data, we reviewed a judgmental sample of pay increases that occurred between July 1, 2017 and June 30, 2022 for 26 of 113 employees using reports acquired through Automatic Data Processing, Inc., the third-party payroll processing company used by SCEL. We found 83 separate instances of pay increases. Chart 3.2 details the breakdown of justifications. Of those 83 pay increases, 18 did not include the proper justification to support the pay increase. While SCEL documents pay adjustments on the payroll action forms, it does not maintain written justification to support the increases.

Chart 3.2: Justification of Pay Increases

JUSTIFICATION FOR PAY INCREASE	# OF INCREASES
Unjustified Increase	18
Compensation and Classification Study	24
Cost Of Living Adjustment	20
Across-the-Board Increase	20
Other Justified Increase	1
TOTAL	83

Source: LAC Analysis of SCEL's Payroll Files and Corresponding Personnel Files

S.C. Reg. 19-705.04 states in-band salary increases require agencies to maintain written justifications. Performance increases are determined by the agency and cannot exceed the maximum salary of the pay band. Any increase of 15% or above must be submitted in writing to the Division of State Human Resources for approval. In no case should the salary increase exceed the maximum of the pay band. Additionally, S.C. Reg. 19-705.04(A) states agencies are required to develop written policies dictating salary increases for employees. While we understand SCEL is exempt from the regulation, it is a best practice to help ensure fair and equitable salary adjustments. As previously noted, SCEL does not have written policies and procedures guiding HR functions.

Recommendations

19. The South Carolina Education Lottery should create and maintain a comprehensive human resources' manual outlining the policies and procedures of the agency, as well as the human resources' division.
20. The South Carolina Education Lottery should develop a policy encompassing what is considered a clear background investigation for the purposes of employment.
21. The South Carolina Education Lottery should comply with state law by conducting a name-based criminal records check prior to hiring an employee.

22. The General Assembly should amend the South Carolina Education Lottery regulations to require a pre-hire national criminal records check, to include a fingerprint scan, to capture any criminal records outside of South Carolina.
23. The South Carolina Education Lottery should conduct a name-based criminal records check on all active employees on a cycle of every three years.
24. The South Carolina Education Lottery should define, in policy, how to address employment should the criminal record status of an employee change.
25. The South Carolina Education Lottery should develop a policy addressing the purpose, frequency, and expectations of employee performance evaluations.
26. The South Carolina Education Lottery should continue to conduct performance evaluations for all employees on an annual basis.
27. The South Carolina Education Lottery should complete its migration of personnel files to a digital database by March 2024.
28. The South Carolina Education Lottery should develop a policy ensuring any issues with the security of employees' confidential personnel files are handled appropriately, including informing the affected employees when there has been a possible breach of security.
29. The South Carolina Education Lottery should conduct an in-house review of all personnel files to ensure required documentation has been completed and included.
30. The South Carolina Education Lottery should develop a policy and procedure to conduct in-house personnel file reviews on an annual basis.
31. The South Carolina Education Lottery should maintain written justifications for salary increases.

Comparison with Other States' Lotteries

We compared South Carolina's lottery to the lotteries of surrounding states with similarly structured lotteries—North Carolina, Georgia, and Florida. We found South Carolina:

- Is the only state reviewed that does not allow players to purchase lottery tickets with a debit card.
- Is the only state reviewed that does not allow players to purchase lottery tickets from a vending machine.
- Does not have a panic button available for the greeter at the claims center's main entrance.
- Is in the process of applying for certification from the Responsible Gaming Verification Program for Lottery Organizations.
- Is required to conduct background checks of lottery retailers similarly with other surrounding states.
- Had the second highest total sales per capita of the four states reviewed, for CY 2021.
- Had the second highest instant ticket sales per capita of the four states reviewed, for CY 2021.

Purchasing Lottery Tickets

We compared how surrounding states allow players to purchase lottery tickets with how South Carolina handles this. While only one state allows players to purchase lottery tickets with a credit card or purchase tickets online, all three surrounding states allow players to purchase lottery tickets from a vending machine or with a debit card. South Carolina is the only state reviewed that does not allow the purchase of lottery tickets from a vending machine or with a debit card. Chart 3.3 details our comparisons.

Chart 3.3: Comparison of How Lottery Tickets May be Purchased

METHOD OF PURCHASE	SOUTH CAROLINA	NORTH CAROLINA	GEORGIA	FLORIDA
Vending Machines (Cash)	No	Yes	Yes	Yes
Vending Machines (Debit Card and Mobile Pay)	No	Yes	Yes	No
Debit Card or Bank Account	No	Yes	Yes	Yes
Credit Card	No	No	No	Yes*
Online	No	No	Yes	No

* Requires at least \$20 worth of other goods or services rendered to permit payment by credit card.

Source: States' Lottery Websites, Emailed Response from Florida, LAC Analysis

According to an SCEL official, some players do not want to have face-to-face interaction and the biggest barrier to playing the lottery is that most people do not carry cash. The official stated using debit cards to buy lottery products and using vending machines would address those barriers.

South Carolina state law prohibits the utilization of debit cards and instant ticket vending machines to purchase lottery tickets. We surveyed a statistically-valid, judgmental sample of lottery retailers and learned some retailers feel the sale of lottery tickets via debit card payment should be allowed.

According to another SCEL official, the board of commissioners was asked to discuss the use of debit cards to purchase lottery tickets prior to COVID-19, but no firm position was taken. However, in its December 2022 meeting, the board of commissioners adopted a favorable position on the use of debit cards, stating it would be advantageous to eliminate the statutory prohibition against the sale of lottery products with debit cards while maintaining the prohibition on credit card purchases. A 2019 study conducted by International Game Technology (IGT), SCEL's provider for terminal generated tickets, found a 21% growth in sales at cashless-enabled terminals after enabling cashless functionality in Michigan, North Carolina, and Virginia. From IGT's study, it was determined that "cashless purchase options make a lottery purchase more convenient and more appealing to players, ultimately leading to higher revenues and more support for good causes."

We asked SCEL about its stance on the use of vending machines and were told the board of commissioners has not taken a position on the use of vending machines and SCEL has not asked the board of commissioners to consider a recommendation for a statutory change. We were also told SCEL staff have discussed the benefits and challenges of vending machines with lottery retailers. According to the official, a significant hurdle with vending machines is the initial cost to procure and the recurring cost to maintain the machines. The official also noted the current prohibition against debit cards would limit the potential success of vending machines. However, as noted above, all three states with vending machines accept cash through the vending machines. Allowing the use of debit cards and vending machines may also increase participation in the lottery; therefore, increasing the amount of funds available for education.

Physical Security Measures

We contacted North Carolina, Georgia, and Florida to obtain information regarding the physical security of lottery claims centers in these states. Only Florida responded and stated the claims center is secured by on-site contracted security, surveillance cameras, and bullet-proof glass. Like Florida, South Carolina also has on-site contracted security for the main SCEL building, but only surveillance cameras and bullet-proof glass at the claims center.

Additionally, according to an SCEL official, South Carolina has panic buttons for SCEL claims representatives to use. However, the greeter at the main door to the claims center does not have access to a panic button. The panic buttons are only at the windows for the claim representatives and alert the security guards in the reception area of the main SCEL building, which is across the street from the claims center. Installing a panic button for the greeter at the main door of the claims center and having a security guard on-site would enhance security and mitigate any potential issues that arise prior to reaching the claim representatives' windows.

Responsible Gaming Verification Program for Lottery Organizations

In 2016, the North American State and Provincial Lotteries and the National Council on Problem Gambling launched the Responsible Gambling Verification Program for Lottery Organizations. The program was created to “help lotteries plan and implement effective responsible gambling in all aspects of their operations.” It also aims to educate lottery executives, employees, and the public about responsible gaming measures and the spectrum of problem gambling behavior and treatment. The program offers three levels (planning, implementation, and sustaining) and uses a process improvement model.

Forty-five states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands all have government-operated lotteries. As of February 2023, 25 U.S. lotteries had achieved certification from the program. We reviewed the states involved with the program and found that from:

September 2018 to April 2024	Florida State Lottery is on the planning level
March 2022 to February 2025	Georgia Lottery Corporation is on the implementation level
September 2018 to July 2024	North Carolina Education Lottery is on the sustaining level

We asked SCEL about the status of its certification with the North American State and Provincial Lotteries and were told, as of August 14, 2023, SCEL was very close to having all criteria met to submit the application for level one, planning, the starting process of the certification.

Lottery Statistics and Sales

We reviewed the 2022 version of the *La Fleur's World Lottery Almanac* and compared the statistics of South Carolina's lottery with the lotteries in North Carolina, Georgia, and Florida. Chart 3.4 outlines our comparison.

Chart 3.4: Comparison of Lottery Statistics

	SOUTH CAROLINA	NORTH CAROLINA	GEORGIA	FLORIDA
Lottery Sales* (CY 2021)	\$2,415	\$3,969.5	\$6,063.3	\$9,334.3
Commission Rate Paid to Lottery Retailers	7%	7%	6%	5%
Number of Lottery Retailers	3,850	7,160	8,908	13,493
Number of Sales Representatives	39	72	75	110
Number of Lottery Retailers for Each Sales Representative	99	99	119	123

Note: All figures are based on 2021 data.

* In millions.

Source: *La Fleur's World Lottery Almanac*, 2022; LAC Analysis

As shown in Chart 3.4, South Carolina had the least amount of lottery sales, number of lottery retailers, and number of sales representatives. However, South Carolina paid the same commission to lottery retailers and had an equal number of lottery retailers for each sales representative as North Carolina.

Additionally, we compared lottery sales information for surrounding states with South Carolina. Chart 3.5 includes the details of our comparison.

Chart 3.5: Comparison of Lottery Sales Information

	SOUTH CAROLINA	NORTH CAROLINA	GEORGIA	FLORIDA
Lottery Sales* (CY 2021)	\$2,415	\$3,969.5	\$6,063.3	\$9,334.3
Instant (Scratch-Off) Ticket Sales* (CY 2021)	\$1,741	\$2,656	\$3,963	\$6,934
Total Sales per Capita* (CY 2021)	\$465	\$376	\$561	\$429
Instant Ticket Sales per Capita* (CY 2021)	\$335	\$252	\$367	\$318
Number of Instant Games (FY 20-21)	89	55	65	38
Prizes as Percentage of Total Revenues (FY 20-21)	65.9%	64.6%	63.9%	67.5%

* In millions.

Source: *La Fleur's World Lottery Almanac*, 2022; LAC Analysis

Although South Carolina's total sales were the lowest of the four states reviewed, it had the second highest percentage of instant (scratch-off) ticket sales at 72% of total sales. Florida had the highest total sales amount and the highest percentage of instant ticket sales as a percentage of total sales at 74%.

South Carolina had the second highest total sales per capita of the four states reviewed, as well as the second highest instant ticket sales per capita, while Georgia had the highest in both categories. Of the four states reviewed, Florida had the highest percentage for prizes as a percentage of total revenues at 67.5%, followed by South Carolina at 65.9%. South Carolina had the highest number of instant games in FY 20-21 at 89 games, followed by Georgia with 65 games.

Background Checks for Lottery Retailers

We compared South Carolina's background check requirement for lottery retailers to that of surrounding states. South Carolina conducts background checks on lottery retailers. Like South Carolina, North Carolina, Georgia, and Florida have a requirement to conduct background checks on lottery retailers.

Recommendations

32. The General Assembly should amend state law to allow players of the South Carolina Education Lottery to purchase lottery tickets using a debit card.
33. The General Assembly should amend state law to allow players of the South Carolina Education Lottery to purchase lottery tickets from a vending machine.
34. If the General Assembly amends state law to allow players to purchase lottery tickets from a vending machine, the South Carolina Education Lottery should develop a process, and written policy, to install vending machines in lottery retailer locations.
35. The South Carolina Education Lottery should have a security guard physically located at its claims center during business hours.
36. The South Carolina Education Lottery should install panic buttons for the greeter at the claims center's main entrance.
37. The South Carolina Education Lottery should continue the process toward certification from the Responsible Gambling Verification Program for Lottery Organizations.

Website Comparison

We reviewed SCEL’s website and compared its contents with the websites of state lotteries in North Carolina, Georgia, and Florida. The state lotteries used for comparison were selected due to similarities with the operations of SCEL. While the states’ lottery websites were similar in content, we found SCEL’s website could be improved by:

- Adding a search bar allowing website visitors to find information more quickly.
- Allowing claimants to schedule an appointment for SCEL’s claims center.

However, SCEL’s website was the only state of those reviewed to list the top 100 lottery retailers for sales and to allow for electronic submission of game-related feedback.

No Search Bar Available on SCEL’s Website

SCEL’s website does not have a search bar. When search bars are included on a website, it allows the person accessing the website to find information more quickly, making the website more user friendly. Not only is it easier for information to be found, but it is also a time saving opportunity for the user.

A news article written by Green Mellen Media in March 2019 called a search bar a “must-have” for a successful website, allowing for a smooth, seamless experience for visitors to the website. The article stated including search functionality is one of the easiest and best ways to improve the usability and effectiveness of a website as visitors will use it to navigate for specific information. Website navigation is more difficult on a mobile device, such as a cell phone, but having a search bar on the website can be helpful. A search bar also allows a business to modify page content or design based on analytics of visitor searches.

A search bar is a website’s own personal search engine and is advantageous to visitors of the website. Without having access to a search bar, which can be easily found, the visitor may not be able to find the specific information related to the visitor’s website visit. For example, information on SCEL’s website about avoiding lottery scams is located under the tab labeled “About Us” and a subtab labeled “Public Information.” A website visitor researching lottery scams may not be able to locate the information, but with the use of a search bar, the visitor would be easily directed to the information for avoiding lottery scams.

Scheduling Appointments for the Claims Center

Unlike Georgia's lottery website, South Carolina's lottery website does not have the option to schedule appointments at the lottery claims center. We were informed by SCEL officials there have been times in which the line of claimants at the claims center extends outside and down the street. Having claimants lining up outside to claim lottery winnings creates a safety concern and could be avoided by having the option to schedule an appointment through a scheduler on SCEL's website. Claimants could also be provided the option to make an appointment by phone. Appointments would be a convenience for the claimants and would be beneficial for SCEL's employees working in the claims center. Appointments could save time for claimants and reduce the burden on SCEL's employees in the claims center.

Georgia's lottery has nine claim centers which all require an appointment to claim a prize. Appointments can be scheduled using the online scheduler on Georgia's lottery website. As mentioned, providing the option for scheduling appointments can be beneficial for both the claimants and for lottery employees.

Additional Information on South Carolina's Lottery Website

We found South Carolina's website contained information not available on the websites of other states, including North Carolina, Georgia, and Florida. South Carolina's lottery website contained a listing of its top selling 100 retailers and allowed for electronic submission by the public of game-related feedback. Recognizing the top selling lottery retailers is helpful for the retailers and may encourage other retailers to promote lottery sales, the net proceeds of which supplements education funds in the state. Allowing electronic submission of feedback for lottery games may help SCEL to make improvements in its game designs.

Recommendations

38. The South Carolina Education Lottery should enhance the usability of its website by adding a search bar.
39. The South Carolina Education Lottery should add, on its website, an online appointment scheduler for the claims center.
40. The South Carolina Education Lottery should provide the option for claimants to make an appointment to be served at the claims center.

Status of Prior LAC Recommendations

June 2019

A Review of the South Carolina Education Lottery and Its Oversight of Retailers and Players

We reviewed all 32 of the recommendations from our June 2019 report and found 2 (6%) of the recommendations were implemented and 28 (88%) had not been implemented, while one was partially implemented and one was not applicable. Of the 32 recommendations, 21 were directed to SCEL and 11 were directed to the General Assembly. Of the two recommendations implemented, one was to the General Assembly and one was to SCEL.

2019

A Review of the South Carolina Education Lottery and Its Oversight of Retailers and Players

STATUS OF RECOMMENDATIONS	NUMBER
Implemented	2
Partially Implemented	1
Not Implemented	28
Not Applicable	1
TOTAL	32

June 2018

South Carolina's Use of Education Lottery Account Funds

We also reviewed all eight of the recommendations from our June 2018 report and found none of the recommendations were implemented. All eight recommendations were directed to the General Assembly.

2018

South Carolina's Use of Lottery Education Lottery Account Funds

STATUS OF RECOMMENDATIONS	NUMBER
Implemented	0
Not Implemented	8
TOTAL	8

Each recommendation from the 2019 and 2018 reports, including details of the implementation status, are noted below.

Status of 2019 Recommendations

June 2019 Recommendation 1

The General Assembly should consider amending state law to direct an entity independent of lottery sales — such as the S.C. Department of Revenue, another existing state agency, or a newly-created state agency — to be responsible for issuing lottery licenses and overseeing compliance with state laws and regulations by retailers and players.

NOT IMPLEMENTED

June 2019 Recommendation 2

If the General Assembly does not implement recommendation 1, it should implement the recommendations in this report that suggest state law be amended to require the South Carolina Education Lottery to more aggressively oversee retailer and player integrity.

NOT IMPLEMENTED

June 2019

A Review of the South Carolina Education Lottery and Its Oversight of Retailers and Players

The General Assembly has not amended state law to direct an entity outside of lottery sales to be responsible for issuing lottery licenses and overseeing compliance with state laws and regulations by retailers and players.

The General Assembly has not implemented Recommendation 1 and has not amended state law to require the South Carolina Education Lottery to more aggressively oversee retailer and player integrity.

June 2019
Recommendation 3

The General Assembly should obtain a formal opinion from the Office of the Attorney General on the legality of purchasing and selling winning lottery tickets in resale transactions.

IMPLEMENTED

The General Assembly obtained a formal opinion in September 2019 from the Office of the Attorney General on the legality of purchasing and selling winning lottery tickets in resale transactions. The opinion concluded:

...that a court may find the SCEL Act and related regulations are ambiguous regarding the applicability of the prohibitions on selling and assigning tickets to the practice of discounting in deference to the Commission's interpretation...[T]here is some uncertainty regarding how a court would interpret the prohibition on the sale of lottery tickets.

Additionally, the opinion stated:

There is some uncertainty regarding how a court would interpret the prohibition on the sale of lottery tickets in Section 59-150-210(A) & (C) in light of Regulation 44-80(C). Legislation which expressly addresses discounting or influencing a person's right to claim a prize may be necessary to definitely address the concerns raised in the LAC report and request letter.

The opinion notes that selling lottery tickets, except for the methods authorized by the SCEL Act, remains a criminal offense, and secondary sales of lottery tickets occurring outside the methods authorized by the SCEL Act are unauthorized and are criminal violations.

We asked an SCEL official if the agency had made policy changes as a result of the opinion obtained from the Office of the Attorney General. SCEL has not implemented policy changes, stating "there is no express statutory prohibition against what the LAC refers to as 'the resale of winning lottery tickets.'" SCEL stated the secondary sales of lottery tickets are criminal offenses, but it is distinguishable from the sale of a lottery prize. SCEL claimed it conducts an investigation when a lottery ticket showing evidence of two or more owners, such as having a person's name stricken through, is presented for claiming the prize.

It is SCEL's position that until the General Assembly enacts specific legislation which prohibits the exchange of a lottery prize between two parties for an amount of money less than the prize value, SCEL does not have legal standing to deny a claim.

June 2019
Recommendation 4

If the Office of the Attorney General determines that lottery ticket resale transactions are legal under current state law, the General Assembly should amend state law to explicitly prohibit the practice.

NOT IMPLEMENTED

The opinion rendered by the Office of the Attorney General stated a court may find the SCEL Act to be ambiguous and uncertain regarding the applicability of the prohibitions on selling and assigning tickets (see Recommendation 3). However, the General Assembly has not amended state law to prohibit the practice of lottery ticket resale transactions.

June 2019
Recommendation 5

The General Assembly should amend state law to require the withholding of lottery prize winnings greater than \$500 to settle debts of any amount owed by prize winners where the state is either the creditor or a collection agent for creditors.

NOT IMPLEMENTED

The General Assembly has not amended state law to require the withholding of lottery prize winnings greater than \$500 to settle debts of winners where the state is either the creditor or a collection agent for creditors.

June 2019
Recommendation 6

The South Carolina Education Lottery should amend its retailer contract regarding the prohibition against purchasing winning lottery tickets for less than the prize amounts by defining the parties to whom it applies.

NOT IMPLEMENTED

SCEL stated “a contract cannot restrict someone’s conduct who is not a party to the contract.” SCEL has interpreted the recommendation to imply it cannot prohibit a lottery player from purchasing a winning lottery ticket for less than the prize amount because lottery players are not parties to the contract.

However, LAC’s recommendation indicates SCEL should state in its retailer contract that the prohibition against purchasing winning lottery tickets for less than the prize amount is directed to retailers and relatives of retailers. By defining the term “agent” in the retailer contract, retailers would be contractually informed of the prohibition against purchasing winning lottery tickets by retailers or their relatives for less than the prize amounts, making accountability clear.

June 2019
Recommendation 7

The South Carolina Education Lottery should develop a formal policy regarding the measures it uses to enforce its prohibition against retailers purchasing winning lottery tickets for less than the prize amounts.

NOT IMPLEMENTED

SCEL stated it tailors its enforcement mechanisms to each evidenced violation of its prohibition against retailers purchasing winning lottery tickets for less than the prize amounts.

In our interviews with SCEL security staff, it was clear that the agency's enforcement efforts are reactive instead of proactive. Developing a formal policy of the measures used to enforce the prohibition against retailers purchasing winning lottery tickets for less than the prize amounts would be a proactive measure that may lead to decreased violations.

June 2019
Recommendation 8

The South Carolina Education Lottery should require lottery retailers, employees, and retailers' household family members to identify as such on the claim form when redeeming a winning lottery ticket.

NOT IMPLEMENTED

SCEL stated there is no need to obtain unnecessary information on a claim form.

June 2019
Recommendation 9

The South Carolina Education Lottery should, prior to paying claims, automatically check to determine whether the prize claimants are active lottery retailers or associated with lottery retailers.

NOT IMPLEMENTED

SCEL stated a retailer/owner is not statutorily prohibited from playing the lottery.

June 2019
Recommendation 10

The South Carolina Education Lottery should conduct its undercover checks of retailers' compliance with state law and contract using a continual schedule that minimizes the chance the retailers will know when a check is more likely to occur.

NOT IMPLEMENTED

SCEL stated its security department increased its deployment schedule in accordance with the recommendation, but uses one compliance game per year, which may be used for as long as the underlying sister game remains available for purchase.

Our review of compliance checks conducted by SCEL from November 2014 through September 2021 found only a small number of retailers each year had been subject to a compliance check and that many retailers never had a compliance check during that time frame. Additionally, five counties—Allendale, Anderson, Barnwell, Edgefield, and Hampton—had been excluded from the compliance checks (see *Oversight of Lottery Retailers*). However, SCEL's documentation of the compliance checks did not always include the name of the county. Adequate documentation of the retailer's location is an important element that should be included on all compliance checks. Without proper identification of the location, SCEL is unable to verify lottery retailers in all counties have been reviewed for compliance.

June 2019
Recommendation 11

The South Carolina Education Lottery should conduct more robust retailer undercover compliance checks for the purchase of winning tickets by implementing the following:

- Use of undercover agents who reflect the demographics of the retailers' customers.
- Use of undercover agents from populations that are more vulnerable to retailer misconduct.
- Varying the process from store to store.
- Use of a suggestive approach.
- Publicizing disciplinary actions on its website.

NOT IMPLEMENTED

SCEL has not changed the way it conducts undercover compliance checks. SCEL stated its undercover compliance checks are based on the total caseloads of the agents working the retailer undercover compliance checks.

We reviewed the undercover compliance checks SCEL conducted from November 2014 through September 2021 and found improvements could be made to the process (see *Oversight of Lottery Retailers*).

We reviewed SCEL's website and found there are no disciplinary actions resulting from undercover retailer compliance checks publicized on its website. Posting disciplinary actions regarding lottery retailers on SCEL's website would be a proactive measure that may be a deterrent to retailer misconduct.

June 2019
Recommendation 12

The General Assembly should amend state law to authorize the South Carolina Education Lottery to collect information identifying lottery retail employees in order to maintain a database of individuals who have greater incentive to engage in misconduct with lottery tickets.

NOT IMPLEMENTED

The General Assembly has not amended state law to authorize SCEL to collect information identifying lottery retail employees in order to maintain a database of individuals who have a greater incentive to engage in misconduct with lottery tickets.

June 2019
Recommendation 13

The South Carolina Education Lottery should develop and renew annually a database that includes all employees of lottery retailers.

NOT IMPLEMENTED

SCEL stated establishing a database is not required by law and turnover of employees in the retail industry would make establishing such a database impossible.

June 2019
Recommendation 14

The South Carolina Education Lottery should routinely conduct a statistical probability analysis of the prize claiming patterns of players who frequently redeem winning tickets with larger prizes to determine whether it would be probable for any person to win as frequently. It should use the results of this analysis as a basis for and a component of further investigation.

NOT IMPLEMENTED

SCEL stated it conducts informal probability analyses on the prize claiming patterns of players who frequently redeem winning lottery tickets with large prizes. However, SCEL stated the recommendation had not been implemented and provided no documentation to show the analyses were conducted and that investigations were conducted based on these analyses.

June 2019
Recommendation 15

The South Carolina Education Lottery should routinely conduct a statistical probability analysis of pairs or groups of claimants who are affiliated and who frequently redeem winning tickets with larger prizes to determine how probable it would be for any pair or group to win as frequently.

NOT IMPLEMENTED

SCEL stated it conducts informal probability analyses on the prize claiming patterns of groups of claimants who are affiliated and who frequently redeem winning tickets with large prizes and uses the analysis as a basis for further investigation. However, SCEL provided no documentation to show the analyses were conducted and how the results were used. SCEL also indicated it does not intend to implement this recommendation.

June 2019
Recommendation 16

The General Assembly should amend state law to ban lottery retailers, retail employees, and household family members of retailers from purchasing tickets from the retail stores at which they or their relatives work.

NOT IMPLEMENTED

The General Assembly has not amended state law to ban lottery retailers, retail employees, and household family members of retailers from purchasing tickets from the retail stores at which they or their relatives work.

June 2019
Recommendation 17

If the General Assembly does not amend state law to ban lottery retailers, retail employees, and household family members of retailers from purchasing tickets from the retail stores at which they or their relatives work, the South Carolina Education Lottery should establish such a ban.

NOT IMPLEMENTED

SCEL stated it does not intend to implement the recommendation as it has no legal authority in the Lottery Act to ban a certain group of people from playing lottery games.

**June 2019
Recommendation 18**

The South Carolina Education Lottery should establish enforcement measures to ensure that retailers, retail employees, and household family members of retailers comply with a ban on purchasing, validating, and redeeming tickets from the retail stores at which they or their relatives work.

NOT IMPLEMENTED

SCEL stated there is currently no ban prohibiting retailers, the retailers' employees, or the retailers' household family members from purchasing, validating, or redeeming lottery tickets from the retail stores at which they or their relatives are employed.

**June 2019
Recommendation 19**

The General Assembly should amend state law to require the suspension of prize claiming privileges of individuals with frequent and highly improbable prize claiming patterns.

NOT IMPLEMENTED

The General Assembly has not amended state law to require the suspension of prize claiming privileges of individuals with frequent and highly improbable prize claiming patterns.

**June 2019
Recommendation 20**

If the General Assembly implements recommendation 19, the South Carolina Education Lottery should promulgate regulations with:

- Standards for determining highly improbable prize claiming patterns.
- A specified penalty structure.

NOT IMPLEMENTED

The General Assembly has not implemented Recommendation 19.

June 2019
Recommendation 21

The South Carolina Education Lottery should establish specific penalty structures or schedules in regulation for lottery retailers and their employees who:

- Accept non-cash forms of payment for lottery tickets.
- Sell lottery tickets to minors.
- Fail to properly secure ticket lottery inventory.

NOT IMPLEMENTED

June 2019
Recommendation 22

The South Carolina Education Lottery should periodically conduct secret checks or secret shopping reviews of its retailers to determine if they are accepting non-cash payment for lottery tickets.

NOT IMPLEMENTED

June 2019
Recommendation 23

The South Carolina Education Lottery should periodically conduct secret checks or secret shopping reviews of its lottery retailer network or contract with another entity, such as the S.C. Department of Alcohol and Other Drug Abuse Services, to determine if retailers are selling tickets to minors.

NOT IMPLEMENTED

SCEL stated it tailors its enforcement mechanisms to each evidenced violation of its prohibition against retailers and their employees who engage in the listed activities.

We found SCEL to be reactive in its approach to violations rather than being proactive. By establishing specific penalty structures or schedules in regulation, lottery retailers would be put on notice beforehand, which may prevent future violations.

SCEL stated it receives a nominal number of complaints alleging retailers are accepting non-cash payments for lottery tickets, which are addressed on a case-by-case basis. Also, SCEL has found the complainants usually have a personal interest in the issue. Due to the nominal number of allegations, SCEL has not initiated a secret check or secret shopping review program.

We found, however, that implementing a secret shopping review of lottery retailers may uncover violations and may be a deterrent to future violations.

SCEL stated it receives a nominal number of complaints alleging retailers are selling lottery tickets to minors, which are addressed on a case-by-case basis. SCEL has found the complainants usually have a personal interest in the issue. Due to the nominal number of allegations, SCEL has not initiated a secret check or secret shopping review program.

June 2019
Recommendation 24

The South Carolina Education Lottery should suspend any and all lottery activity of retailers with unpaid debts, as outlined in state regulation.

NOT IMPLEMENTED

SCEL stated it disagrees with LAC's reading of the state regulation and believes SCEL is in compliance with the regulation.

However, S.C. Reg. 44-90.20(B) clearly outlines the penalty schedule for unpaid debts of lottery retailers, with (B)(4) stipulating a lottery retailer's license and its accompanying privileges shall be revoked by SCEL's executive director upon the fourth occurrence of an unpaid debt in any period.

June 2019
Recommendation 25

The South Carolina Education Lottery should penalize retailers on the fourth instance of unpaid debts owed to the lottery, in the manner written in state regulation.

NOT IMPLEMENTED

SCEL stated it disagrees with LAC's reading of the state regulation and believes SCEL is in compliance with the regulation (see Recommendation 24).

June 2019
Recommendation 26

The South Carolina Education Lottery should adhere to the penalty length prescribed in the retailer contract for retailers that operate illegal gambling machines.

NOT IMPLEMENTED

SCEL stated with contract provisions and law enforcement measures, the problem has been virtually eliminated. However, SCEL provided no documentation to show elimination of or a decreased incidence rate for the operation of illegal gambling machines.

June 2019
Recommendation 27

The South Carolina Education Lottery should establish in regulation the penalties that will be issued against a retailer's license for the misconduct of the retailer's employees.

NOT IMPLEMENTED

SCEL stated a regulation is not needed because owners of retail locations are responsible for the conduct of their respective employees.

However, if such regulations are established and put forth as a requirement in the retailer's contract, the retailer would have a contractual obligation to ensure its employees are conducting themselves in accordance with SCEL's regulations and would be penalized for the misconduct of its employees.

June 2019
Recommendation 28

The General Assembly should amend state law to specify whether public disclosure of the identity of lottery prize claimants is required.

PARTIALLY IMPLEMENTED

The General Assembly has not amended state law regarding whether public disclosure of the identity of lottery prize claimants is required. During the FY 23-24 legislative session, the House passed bill H 3872, which would have exempted certain personally identifiable information concerning lottery claims from public disclosure. However, after being introduced and read the first time in the Senate, the bill was not presented for a vote in the Senate. The issue of public disclosure of the identity of lottery prize claimants is temporarily clarified for the current fiscal year by a proviso. However, provisos expire after one fiscal year, unless renewed thereafter. The issue will not be definitively clarified unless S.C. Code is amended.

June 2019
Recommendation 29

If state law is amended to require public disclosure of lottery prize claimants, the General Assembly should also amend state law to specify:

- The circumstances under which public disclosure of lottery prize claimants is required.
- Whether a cooling off period prior to disclosure is required.
- The specific information about lottery prize claimants that must be disclosed.

NOT APPLICABLE

The General Assembly has not amended state law regarding public disclosure (see Recommendation 28).

**June 2019
Recommendation 30**

To ensure compliance with S.C. Code §59-150-40(L), the South Carolina Education Lottery should periodically check public records regarding political contributions made by its commissioners.

IMPLEMENTED

SCEL has its commissioners sign a Political Contributions and Ticket Purchasing Acknowledgment upon appointment to the commission. SCEL stated, since 2019, public records are checked annually by its legal department regarding political contributions made by its commissioners. SCEL conducts the public contribution checks electronically using the State Ethics Commission’s website but does not document the check in writing. Documenting the public records check in writing would provide support that the public records check was actually conducted.

**June 2019
Recommendation 31**

The South Carolina Education Lottery should discontinue the practice of including the odds of not winning on its lottery tickets.

NOT IMPLEMENTED

SCEL stated S.C. Code §59-150-60(A)(18) requires “odds of losing” to be posted adjacent to the point of sales of lottery tickets.

**June 2019
Recommendation 32**

The General Assembly should amend S.C. Code §59-150-60(A)(18) to no longer require that the odds of not winning lottery games be displayed at retailer points of sale.

NOT IMPLEMENTED

The General Assembly has not amended S.C. Code §59-150-60(A)(18).

Status of 2018 Recommendations

June 2018 Recommendation 1

The General Assembly should:

- (a) Ensure it acts consistently with the South Carolina Constitution, S.C. Code §59-150-350(D), and §59-150-230(I) when appropriating Education Lottery Account funds to specific programs; or
- (b) Amend state law to be consistent with program appropriations.

NOT IMPLEMENTED

June 2018

South Carolina's Use of Lottery Education Lottery Account Funds

The General Assembly has not amended the applicable state laws.

June 2018
Recommendation 2

The General Assembly should discontinue appropriating funds from the Education Lottery Account for gambling addiction programs and do one of the following:

- (a) Amend state law to require the South Carolina Education Lottery to allocate a specific annual amount of its operating expenses to the Department of Alcohol and Other Drug Abuse Services for gambling addiction programs; or
- (b) Appropriate a specific amount annually from the General Fund to the Department of Alcohol and Other Drug Abuse Services for gambling addiction programs.

NOT IMPLEMENTED

June 2018
Recommendation 3

The General Assembly should consider amending state law to establish an explicit minimum percentage of total recurring general fund and special fund appropriations that are required to be allocated for education.

NOT IMPLEMENTED

The General Assembly has not amended state law to discontinue appropriating funds from the Education Lottery Account for gambling addiction services.

The General Assembly has not amended state law to establish an explicit minimum percentage of total recurring general fund and special fund appropriations required to be allocated for education.

June 2018
Recommendation 4

The General Assembly should amend state law to clarify how to calculate education appropriations for the purposes of the education funding requirement in S.C. Code §59-150-350(D).

NOT IMPLEMENTED

The General Assembly has not amended state law to clarify how to calculate education appropriations for the purposes of the education funding requirement in S.C. Code §59-150-350(D).

June 2018
Recommendation 5

The General Assembly should amend state law to require the Revenue and Fiscal Affairs Office to produce periodic reports during the appropriations process to ensure compliance with the funding requirement in S.C. Code §59-150-350(D).

NOT IMPLEMENTED

The General Assembly has not amended state law to require the Revenue and Fiscal Affairs Office to produce periodic reports during the appropriations process to ensure compliance with the funding requirement in S.C. Code §59-150-350(D).

June 2018
Recommendation 6

The General Assembly should amend state law to require the Revenue and Fiscal Affairs Office to produce an annual report assessing compliance with the education funding requirement in S.C. Code §59-150-350(D) in the prior fiscal year.

NOT IMPLEMENTED

The General Assembly has not amended state law to require the Revenue and Fiscal Affairs Office to produce an annual report assessing compliance with the education funding requirement in S.C. Code §59-150-350(D) in the prior fiscal year.

June 2018
Recommendation 7

If the General Assembly does not intend to fund the K-5 core academic program authorized by S.C. Code §59-1-525, it should delete this section of the law.

NOT IMPLEMENTED

The General Assembly has not amended state law to delete S.C. Code §59-1-525.

June 2018
Recommendation 8

The General Assembly should amend state law to require independent auditors that use the South Carolina Department of Education's Annual Audit Guide when reviewing local school districts to indicate in their reports that they are using the guide as an auditing standard.

NOT IMPLEMENTED

The General Assembly has not amended state law to require independent auditors that use the South Carolina Department of Education's Annual Audit Guide when reviewing local school districts to indicate in their reports they are using the guide as an auditing standard.

SCEL's Marketing Sales Representatives Survey Results

The LAC survey of MSRs was conducted between July 31, 2023 and August 14, 2023 using SurveyMonkey®. We sent a total of 37 survey invitations. Twenty-seven MSRs participated, yielding a participation rate of 73%. The survey was conducted anonymously, and the open-ended responses have been omitted by the LAC to preserve anonymity.

1. How long have you been employed with SCEL?		
ANSWER CHOICES	RESPONSES	
Less than 3 years	18.52%	5
3 to 5 years	11.11%	3
5 to 10 years	33.33%	9
10 to 15 years	0.00%	0
More than 15 years	37.04%	10
TOTAL		27

2. How long have you held your current position as a marketing sales representative?		
ANSWER CHOICES	RESPONSES	
Less than 3 years	25.93%	7
3 to 5 years	14.81%	4
5 to 10 years	25.93%	7
10 to 15 years	0.00%	0
More than 15 years	33.33%	9
TOTAL		27

3. SCEL's training program adequately prepared me for my job duties as a marketing sales representative.		
ANSWER CHOICES	RESPONSES	
Strongly agree	25.93%	7
Agree	40.74%	11
Neither agree nor disagree	18.52%	5
Disagree	3.70%	1
Strongly disagree	11.11%	3
TOTAL		27

4. After initial training as a new employee, additional training sessions would be beneficial to the role of a marketing sales representative.		
ANSWER CHOICES	RESPONSES	
Strongly agree	37.04%	10
Agree	48.15%	13
Neither agree nor disagree	11.11%	3
Disagree	3.70%	1
Strongly disagree	0.00%	0
TOTAL		27

5. After initial training as a new employee, how often should marketing sales representatives receive additional job-related training?		
ANSWER CHOICES	RESPONSES	
Never	0.00%	0
Annually	51.85%	14
Biennially (once every two years)	14.81%	4
Every three years	0.00%	0
Other (please specify)	33.33%	9
TOTAL		27

6. How could SCEL improve training for its marketing sales representatives?	
ANSWER CHOICES	RESPONSES
Answered	24
Skipped	3
TOTAL	27

7. I am informed in a timely manner when there are policy changes made by SCEL.		
ANSWER CHOICES	RESPONSES	
Strongly agree	20.63%	8
Agree	44.44%	12
Neither agree nor disagree	14.81%	4
Disagree	7.41%	2
Strongly disagree	3.70%	1
TOTAL		27

8. SCEL informs me about new lottery products, including instant ticket games, so that I am adequately prepared to respond to questions from lottery retailers.		
ANSWER CHOICES	RESPONSES	
Strongly agree	48.15%	13
Agree	33.33%	9
Neither agree nor disagree	3.70%	1
Disagree	14.81%	4
Strongly disagree	0.00%	0
TOTAL		27

9. My role as marketing sales representative includes identifying misconduct by lottery retailer representatives and conveying that information to SCEL's security department.		
ANSWER CHOICES	RESPONSES	
Strongly agree	55.56%	15
Agree	37.04%	10
Neither agree nor disagree	7.41%	2
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		27

10. My Regional Sales Manager is available when I need assistance.		
ANSWER CHOICES	RESPONSES	
Strongly agree	66.67%	18
Agree	33.33%	9
Neither agree nor disagree	0.00%	0
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		27

11. SCEL management is responsive in a timely manner when I have concerns or need assistance.		
ANSWER CHOICES	RESPONSES	
Strongly agree	51.85%	14
Agree	33.33%	9
Neither agree nor disagree	3.70%	1
Disagree	3.70%	1
Strongly disagree	7.41%	2
TOTAL		27

12. How could management improve its performance?	
ANSWER CHOICES	RESPONSES
Answered	22
Skipped	5
TOTAL	27

13. In which region of the state is your territory located?		
ANSWER CHOICES	RESPONSES	
Upstate	38.46%	10
Midlands	30.77%	8
Coastal	30.77%	8
TOTAL		*26

* 1 respondent skipped this question.

14. How many lottery retailers are included on your route?	
ANSWER CHOICES	RESPONSES
Answered	27
Skipped	0
TOTAL	27

15. I am comfortable with the number of lottery retailers my route encompasses.		
ANSWER CHOICES	RESPONSES	
Strongly agree	22.22%	6
Agree	66.67%	18
Neither agree nor disagree	7.41%	2
Disagree	3.70%	1
Strongly disagree	0.00%	0
TOTAL		27

16. I have adequate time during work hours to address the needs of the lottery retailers my route encompasses.		
ANSWER CHOICES	RESPONSES	
Strongly agree	18.52%	5
Agree	55.56%	15
Neither agree nor disagree	11.11%	3
Disagree	3.70%	1
Strongly disagree	11.11%	3
TOTAL		27

17. Please provide any concerns, comments, or suggestions for improvement you may have as it relates to your job duties and interactions with the lottery retailers. Your responses are confidential and anonymous.	
ANSWER CHOICES	RESPONSES
Answered	20
Skipped	7
TOTAL	27

Lottery Retailer Survey Results

The LAC survey of lottery retailers was conducted between July 18, 2023 and September 18, 2023 via USPS. We mailed a total of 352 paper surveys; 26 surveys were returned as undeliverable. Thirty-one percent (101) of lottery retailers participated. Not all respondents answered every question. Some respondents selected multiple answer options or wrote their own answers; those answers were not included in these results or the analysis of the survey results. The survey was conducted anonymously, and the open-ended response (#14) has been omitted by the LAC to preserve anonymity.

1. How long have you been licensed to sell SCEL products? Please select the closest option.		
ANSWER CHOICES	RESPONSES	
Less than 3 years	15.15%	15
3 to 5 years	17.17%	17
5 to 10 years	21.21%	21
More than 10 years	46.46%	46
TOTAL		99

2. What type of business do you operate?		
ANSWER CHOICES	RESPONSES	
Convenience store	84.54%	82
Grocery store	7.22%	7
Liquor store	6.19%	6
Other _____	2.06%	2
TOTAL		97

3. Which best describes your business establishment?		
ANSWER CHOICES	RESPONSES	
Corporate chain	15.00%	15
Small business	85.00%	85
TOTAL		100

4. In which region of the state is the business receiving this survey located?		
ANSWER CHOICES	RESPONSES	
Upstate	32.29%	31
Midlands	48.96%	47
Coastal	18.75%	18
TOTAL		96

5. How many individuals on your staff at this location can sell SCEL products?		
ANSWER CHOICES	RESPONSES	
Fewer than 3 staff members	38.61%	39
3 to 5 staff members	38.61%	39
6 to 10 staff members	14.85%	15
More than 10 staff members	7.92%	8
TOTAL		101

6. How often does your marketing sales representative (lottery representative) conduct store visits at this location?		
ANSWER CHOICES	RESPONSES	
Never	0.00%	0
Weekly	16.83%	17
Biweekly (twice a month)	53.47%	54
Monthly	29.70%	30
TOTAL		101

7. On average, how long is your marketing sales representative (lottery representative) at your store during visits at this location?		
ANSWER CHOICES	RESPONSES	
Less than 10 minutes	11.00%	11
More than 10 but less than 20 minutes	55.00%	55
More than 20 but less than 30 minutes	28.00%	28
More than 30 minutes	6.00%	6
TOTAL		100

8. My marketing sales representative is available for questions after store visits.		
ANSWER CHOICES	RESPONSES	
Always	83.52%	76
Often	8.79%	8
Sometimes	5.49%	5
Rarely	2.20%	2
Never	0.00%	0
TOTAL		91

9. SCEL has clearly explained its policies and procedures regarding lottery sales to my staff.		
ANSWER CHOICES	RESPONSES	
Yes	94.44%	85
No	5.56%	5
TOTAL		90

10. How often do you contact SCEL with questions or concerns?		
ANSWER CHOICES	RESPONSES	
Never	42.17%	35
Daily	0.00%	0
Weekly	4.82%	4
Monthly	53.01%	44
TOTAL		83

11. How satisfied are you with the training SCEL provides to retailers regarding lottery sales?		
ANSWER CHOICES	RESPONSES	
Very satisfied	59.09%	52
Satisfied	38.64%	34
Unsatisfied	2.27%	2
Very unsatisfied	0.00%	0
TOTAL		88

12. SCEL addresses my questions or complaints in a timely and effective manner.		
ANSWER CHOICES	RESPONSES	
Strongly agree	58.89%	53
Agree	36.67%	33
Disagree	3.33%	3
Strongly disagree	1.11%	1
TOTAL		90

13. SCEL is proactive and actively asks for the input of lottery retailers when it considers amending policies and procedures that would affect the retailers.		
ANSWER CHOICES	RESPONSES	
Strongly agree	36.67%	33
Agree	45.56%	41
Disagree	10.00%	9
Strongly disagree	7.78%	7
TOTAL		90

14. Please provide any concerns, comments, or suggestions you may have related to SCEL's interactions with retailers. Please remember that your responses are confidential and anonymous. Another sheet of paper may be added if needed.	
ANSWER CHOICES	RESPONSES
Answered	16
TOTAL	16

2020 Poverty Rates and Lottery Sales Per County, FY 21-22 and FY 22-23

An overview for the rate of poverty per county was created using data from the United States Census Bureau for 2020, the most current year available. The table shows the total lottery sales per county for FY 21-22 and FY 22-23.

COUNTY	PERCENT BELOW POVERTY LEVEL (2020 DATA) *	FY 21-22 LOTTERY SALES **	FY 22-23 LOTTERY SALES **
Abbeville	17.7%	\$8,471,518	\$8,004,029
Aiken	13.8%	\$67,013,324	\$71,522,012
Allendale	28.0%	\$5,951,422	\$6,246,464
Anderson	13.6%	\$67,291,524	\$69,809,484
Bamberg	21.0%	\$11,142,930	\$11,315,739
Barnwell	27.8%	\$15,446,807	\$16,345,967
Beaufort	9.3%	\$69,468,718	\$76,387,986
Berkeley	11.9%	\$82,279,169	\$91,265,196
Calhoun	19.0%	\$6,304,350	\$6,756,236
Charleston	12.8%	\$180,521,829	\$193,536,990
Cherokee	17.9%	\$27,217,751	\$28,166,979
Chester	18.5%	\$18,904,260	\$20,106,378
Chesterfield	21.2%	\$19,960,261	\$21,103,125
Clarendon	21.7%	\$27,148,056	\$27,222,438
Colleton	19.9%	\$25,409,303	\$25,798,636
Darlington	21.2%	\$42,792,528	\$44,685,166
Dillon	30.2%	\$15,963,721	\$17,206,777
Dorchester	12.0%	\$60,449,475	\$65,972,626
Edgefield	15.2%	\$11,922,856	\$12,164,418
Fairfield	18.5%	\$14,467,918	\$14,696,866
Florence	17.4%	\$91,458,021	\$94,449,304
Georgetown	16.1%	\$32,646,918	\$34,302,471
Greenville	11.2%	\$159,048,723	\$172,724,787
Greenwood	19.4%	\$35,919,229	\$37,210,690
Hampton	17.9%	\$12,921,690	\$12,975,722
Horry	14.3%	\$163,078,140	\$182,980,675
Jasper	19.1%	\$23,522,632	\$24,498,901
Kershaw	15.3%	\$34,805,530	\$36,629,955
Lancaster	13.2%	\$33,386,465	\$35,943,452
Laurens	20.4%	\$30,421,323	\$31,209,469
Lee	25.7%	\$11,088,764	\$11,119,862
Lexington	11.8%	\$121,504,395	\$130,832,082

COUNTY	PERCENT BELOW POVERTY LEVEL (2020 DATA) *	FY 21-22 LOTTERY SALES **	FY 22-23 LOTTERY SALES **
Marion	22.9%	\$18,497,535	\$20,523,148
Marlboro	29.4%	\$18,940,106	\$18,653,487
McCormick	15.3%	\$4,599,385	\$4,925,385
Newberry	17.5%	\$21,383,999	\$21,251,160
Oconee	15.3%	\$19,627,764	\$21,430,565
Orangeburg	23.1%	\$86,231,284	\$90,470,624
Pickens	16.4%	\$31,058,410	\$33,077,731
Richland	16.5%	\$185,620,615	\$199,142,832
Saluda	18.4%	\$8,052,439	\$8,635,682
Spartanburg	14.4%	\$118,612,486	\$125,748,802
Sumter	18.1%	\$79,795,647	\$80,649,381
Union	19.9%	\$13,151,916	\$13,465,689
Williamsburg	24.1%	\$21,243,574	\$21,077,410
York	9.5%	\$101,205,276	\$107,560,418

Note: Lottery tickets can be purchased at any authorized lottery retailer by anyone 18 years of age or older, regardless of the purchasers' county or state of residency.

* Source: United States Census Bureau data for 2020, the most current year available

** Source: South Carolina Education Lottery
 [Note: Because of accounting practices for sales of terminal games for future draws, amounts may not match audited financial statements.]

Agency Comments



February 20, 2024

Mr. K. Earle Powell, Director
Legislative Audit Council
1331 Elmwood Avenue, Suite 315
Columbia, South Carolina 29201

Dear Mr. Powell,

Thank you for providing the South Carolina Education Lottery (SCEL) the opportunity to provide a written response to the findings enumerated in the Legislative Audit Council's (LAC) final report entitled *A Limited Review of the South Carolina Education Lottery*. SCEL appreciates the time that the LAC staff dedicated to recommend areas to improve our practices. SCEL staff is committed to operating with integrity and fairness, while responsibly offering lottery games to raise money for education in South Carolina.

The operation of a state lottery is highly unique and different from the operations of other state agencies. While it is not possible to provide a detailed response to a lengthy report, SCEL seeks to clarify and respond to significant topics presented in this report.

In efforts to continue to make SCEL prosperous, SCEL appreciates the opportunities to improve its practices based on some of the LAC's findings: SCEL strongly agrees with the LAC's recommendation for the General Assembly to amend state law to allow the purchase of lottery products with debit cards; and that documentation to monitor conditional requirements for licensure by retailers can be improved; SCEL will consider the LAC's recommendation to maintain a comprehensive list of email addresses for lottery retailers; and SCEL will conduct an internal assessment to evaluate policies and training for SCEL's field staff (Marketing Sales Representatives, Regional Field Coordinators, and Regional Sales Managers). SCEL has already begun procuring tablet computers for field staff, as recommended. Further, SCEL will consider conducting routine background checks on current employees on a regular basis to ensure all employees remain in compliance with state law. SCEL will take into account the recommendations made to enhance physical security, and SCEL is actively pursuing certification from the Responsible Gambling Verification Program for Lottery Organizations. Lastly, including a search bar on SCEL's website will be considered.

The SCEL Board, management, and staff take seriously our role in safeguarding lottery revenue for education funding and appreciate the General Assembly's oversight of our operations and the LAC's recommendations for improvement. However, several of the LAC's recommendations are either misleading or propose a solution to a problem which the LAC has failed to make evident in its audit report. We believe that these errors reflect, in part, the LAC's lack of communication during the audit process.¹ SCEL repeatedly offered to meet with LAC auditors in person to discuss any issues that were detected in the course of the audit and those invitations were declined. Rather than attempt to become familiar with SCEL's practices, procedures, and its documentation, the LAC merely requested reams of material without discussion. Initial interviews, seemingly cursory in nature, were conducted with SCEL staff. However, as to the documents that were provided to the LAC thereafter, no meaningful conversations occurred to provide context for the documents or to learn how SCEL management operated.

As a result, many of the LAC's findings are disheartening and inaccurate. The audit report, and more particularly the processes employed to conduct the review, is fundamentally flawed. Regrettably, the LAC audit procedures led to a final report replete with factual errors that directly lead to inaccurate findings and recommendations. While this

¹ For instance, throughout the report the LAC repeatedly states it requested supporting documentation to be sent electronically during the exit process, and alludes that SCEL wasted money that could have been used for education. The LAC provided its draft report (and its final report) in hard copy form and therefore, SCEL complied with a response in the same, assuming full compliance was achieved. SCEL was only instructed to provide its final response via electronic mail.

response will go into some detail to explain the deficiencies in the LAC’s approach to fact-finding, two glaring and overarching examples stand out and taint the entire review of oversight: retailer conduct and human resources.

Oversight of Retailer Conduct

The first page of the LAC’s summary epitomizes the misunderstandings rampant within this report. The LAC presents a map of South Carolina and states that SCEL has not conducted undercover visits (stings) in Anderson, Edgefield, Barnwell, Allendale, and Hampton counties. The LAC states that only during the exit process did SCEL indicate that Hampton was the only county SCEL had not visited, and that SCEL provided insufficient documentation to verify their stings in Anderson, Edgefield, Barnwell, and Allendale counties. This is an absurdity.

Early in the audit process, SCEL provided the LAC with documentation summarizing the locations visited in stings from 2014 through 2021. During the exit process SCEL realized that the LAC had not acknowledged the 2014 stings in the four missing counties. SCEL resubmitted the pertinent summary documents for the LAC’s review. However, the LAC found SCEL’s documents *“did not provide compelling evidence to support a change to the LAC’s analysis.”* Nonetheless, the documentation was sufficient to establish stings in the other 41 counties, so the LAC’s finding that the documents are insufficient to do so in Anderson, Edgefield, Barnwell, and Allendale counties is nonsensical.

As this exemplifies, the misunderstandings underpinning the LAC’s report are significant. It is impossible for SCEL to identify all of the misconceptions in this report in the space permitted. SCEL has implemented extensive internal controls to oversee its retailers, yet the LAC tailored their assessment very narrowly: they only made findings pertaining to SCEL’s use of stings, and only at locations where “retailer misconduct” had occurred. The LAC’s review failed to address the majority of SCEL’s internal controls regulating its retailers, including: the stringent licensing process and background checks; the vetting/triage process for every phone call/email that comes to SCEL; the Non-Sufficient Funds (“NSF”) policy; the Inventory Accountability policy; and Security’s methods of escalating certain missing lottery ticket reports, among other countless processes and workflows.

As used in the report, “misconduct” is an overbroad term including intentional misconduct and simple negligence. Stings do not evidence all types of retailer misconduct, especially not simple negligence. If a retailer negligently lost a pack of tickets, a sting would not be an appropriate response to the “misconduct.” Stings do not test the sufficiency of inventory management controls; instead, they test whether the retailer will engage in discounting or theft, neither of which are implicated by negligent inventory management. The LAC assumes that all retailers with issues on SCEL *“logs used to monitor misconduct”* would benefit from a follow-up sting operation. Unfortunately, when Security realized the LAC’s misunderstanding and attempted to clarify, the LAC found Security’s documents *“did not provide compelling evidence to support a change to the LAC’s analysis.”* Nonetheless, without this additional information, it is impossible to conclude why retailers on *“the logs SCEL used to monitor retailer misconduct”* (i.e. SCEL’s Incident, Missing Ticket, or Contract Compliance logs, which are only reference tools summarizing allegations and outcomes) had been identified for misconduct, but not visited during stings.

SCEL’s retailer oversight, including stings, prioritizes intentional misconduct. SCEL monitors evidenced retailer negligence and follows-up if a pattern appears or if there are other extenuating circumstances. Other retailer negligence is addressed in other SCEL policies, such as its Inventory Accountability policy, its Non-Sufficient Funds (NSF) policy, and a stringent licensing process. The LAC did not assess whether SCEL employed stings to follow-up on negligence stemming from NSF or licensing issues. Had the LAC accepted even one of Security’s invitations to discuss the cases, Security could have helped the LAC auditors focus on the population they were trying to assemble, in which case the LAC’s sample would be more accurate and its report would be more insightful.

The LAC references stings only in relation to discounting and fails to reference theft and/or fraud. This significantly misrepresents SCEL operations. For example, the LAC report finds that sixteen (16) disciplinary outcomes (all revocations) arose from stings. This conclusion is misleading because it only reflects outcomes from the 2018-2019 and 2021 stings, but the reported figure (16) is also incorrect. In the 2018-2019 stings, nine (9) retailers engaged in misconduct. Eight (8) engaged in theft or fraud and one (1) engaged in discounting. SCEL revoked all nine (9) retailers’ licenses. Five (5) of the nine (9) retailers negotiated a reduced penalty, as the LAC described in their report. In the 2021 stings, seven (7) retailers engaged in misconduct. Five (5) of these retailers engaged in theft or fraud,

one (1) engaged in discounting, and one was negligent. The licenses of the six (6) retailers who engaged in theft, fraud, or discounting were revoked. All six (6) of these retailers negotiated a reduced penalty, as the LAC described in their report. SCEL issued the sole negligent retailer a warning. Thus, the combined totals of the 2018-2019 and 2021 stings are 16 instances of misconduct: (13) for theft or fraud, two (2) for discounting, and one (1) for negligence; the licenses issued to the 15 retailers who engaged in theft, fraud, or discounting were revoked; and, 11 of those revocations were converted to a suspension and conditional license agreement, as described in the LAC report.

The statement that “*SCEL has not consistently conducted retailer compliance investigations...*” is factually incorrect. SCEL recognizes the need for stings and proactively self-initiated them in 2014 (FY15), planning a “compliance game” every two years. It was not prudent to order a compliance game for 2017, due to the conversion of SCEL’s entire gaming system, after a competitive procurement. The LAC report fails to convey the complexity of performing stings, to include the challenge of maintaining the integrity of SCEL’s ticket sales and validations, while passing compliance tickets that are essentially identical to a live “mirror” game. Game selection requires strategy, as the stings must occur within the life cycle of the mirror game. SCEL games often end within ninety days, or are pulled after the last top prize is sold, both of which greatly limit the time period for sting operations. SCEL fully explained these complexities to the LAC initially. Finally, a SLED agent must supervise all undercover work during each store visit, which requires significant law enforcement resources. Thus, resources, logistics, and the life cycle of the game are challenges.

Contrary to the LAC’s inaccurate assertions, SCEL has regularly conducted stings for roughly 10% of our retailers every two (2) years, except for one (1) cycle, where other valid business reasons prevented the work, as mentioned above. In FY19, SCEL conducted 438 stings (more than 10% of SCEL retailers). In 2021, SCEL conducted 304 stings (slightly less than 10% of SCEL retailers). SCEL is currently preparing for a fifth round of stings (the fourth was not within the audit period). SCEL is acting responsibly and proactively to deter criminal conduct and contract violations without any statutory mandate to perform stings.

Lastly, the LAC made recommendations based on an initial interview with Security in 2022, without considering any changes in operations since that time. For instance, the LAC reports that SCEL was looking into a case management system (CMS), but inaccurately suggested this system had not been implemented. During the exit process, SCEL informed the LAC that we had procured a CMS and were implementing the new system. In fact, SCEL launched its new centralized CMS on January 3, 2024. The system automatically uploads SCEL retailer information which eliminates manual entry and provides standardized forms for capturing reporting. A simple follow-up discussion could have made much of this entire section moot, as recommendations #2, #6, and #7 are already implemented.

Human Resources

No HR Policies & Procedures Manual: The LAC reports that “*SCEL does not have a formal, written policies and procedures manual governing its internal HR practices.*” This statement is factually incorrect. In response, SCEL provided a 514-page electronic document of HR Policies and Procedures. SCEL provided an additional binder of documentation supporting the work flows related to the application of specific HR policies and procedures, which included sample forms and handwritten notes. These materials further support the degree to which the department follows the HR policies and procedures that were originally provided to the LAC. SCEL HR offered the LAC auditors an opportunity to review the binder and they did not. This additional binder, paired with the original documentation of HR Policies and Procedures, provides the factual foundation to refute this assertion.

The LAC further states that “*HR policies and procedures add structure and consistency in employment matters, reducing potential liability. Policies guide employees and leadership to help ensure everyone is treated fairly and consistently.*” This statement is misleading because it implies that SCEL does not treat its employees fairly or consistently. The LAC report does not provide evidence to support this assertion.

Additionally, the LAC states that “*an employee handbook is not an adequate alternative to a HR policies and procedure manual.*” The statement clearly implies SCEL believes an Employee Handbook is an “alternative” to an HR manual, which is false. The original 514-page HR Policies and Procedures electronic document provided to the LAC included:

- (1) A listing of Federal and state employment laws, applicable to SCEL (with hyperlinks): The LAC appears to have overlooked that Federal and state employment laws govern SCEL's internal HR practices and are applied according to each unique event, circumstance, or matter, as it arises. Having a document with links to applicable employment laws provide all HR team members with instant access to the most up-to-date information on ever-changing rules and regulations.²
- (2) State Leave Program (SC Department of Administration): SCEL follows leave policies published by the State Human Resources Division of the SC Department of Administration. The administration and maintenance of leave benefits is clearly defined by these written policies. Leave information is also available to employees via the Employee Handbook, which is covered in Section 8.
- (3) Benefits (Insurance/Retirement/Deferred Compensation) administered by the Public Employee Benefit Authority (PEBA); As a quasi-state entity, SCEL participates in insurance and retirement benefits provided by the state. PEBA has created a thorough, written policies and procedures manual for employers for the administration of insurance and retirement benefits. SCEL does not have the authority or latitude to make decisions relating to insurance or retirement benefits outside of what is directed by PEBA within these manuals.
- (4) Employee Handbook: SCEL does have an Employee Handbook, with some policies currently under revision, which was included as a component of HR's Policies and Procedure Manual. As described by the Society of HR Management (SHRM), *"An employee handbook can be a valuable communication resource for both the employer and the employee. It provides guidance and information related to the organization's history, mission, values, policies, procedures and benefits in a written format. It is also viewed as a means of protecting the employer against discrimination or unfair treatment claims. It is an easily accessible guide to the company's policies and practices as well as an overview of the expectations of management."*
- (5) SCEL's HR Employee Documents: Finally, SCEL HR provided the LAC with a written narrative outlining policies and procedures as they relate to new hires (vacancy postings and recruitment process), timekeeping procedures (for exempt and non-exempt employees, with related payroll procedures), payroll processing procedures through ADP, payroll reporting procedures (including general ledger) to SCEL Finance, transfer procedures (for an existing SCEL employee into another job, including a promotion), and separation procedures. This employment document is updated and amended each year during the yearly financial audit, performed by an outside auditing firm.

Policy Needed on Criminal Background Checks: The LAC report continues to include material misrepresentations in this section. SCEL's efforts in conducting background checks exceed statutory mandates. S.C. Code Ann. §59-150-100(E) requires SCEL to conduct a background investigation for an applicant before an offer of employment for any division director and above and for employees at any level within any division of security. However, SCEL conducts background investigations on all employees.

The LAC report found that *"...2 of the 120 active employees had criminal convictions of fraudulent checks which occurred nine or more years prior to hire."* In reality, SCEL hired one employee (who does not occupy a position in the finance or claims departments) with a fraudulent check conviction that that occurred over thirty years ago and 9 years prior to their hire date. Additionally, the LAC reports that *"another three files showed arrest/criminal records, but did not contain a complete disposition, making it impossible to determine the status of the charges."* Once again, this information is completely inaccurate, as SCEL hired one employee with a Driving under Suspended License offense, which occurred over 20 years ago (and 20 years prior to their hire date). This employee does not occupy a field/sales position, where driving would be a large component of their daily activity. SCEL HR relies on the expertise of its Legal and Security departments to research, interpret, and evaluate any records shown on a candidate's criminal background report. The LAC should have sought clarification or a professional opinion of their own before publishing this information as a "finding." SCEL has not hired any individual with a criminal history prohibited by S.C. Code Ann. §59-150-100, and the LAC suggesting otherwise is misleading and inaccurate.

Failure to Conduct Name-Based Criminal Records Checks: The LAC report found *"SCEL does not consistently conduct name-based criminal records checks prior to hire, **as required by state law** [emphasis added]."* State law does not

² Information discussed in Items 1-4 are readily available to all employees on the SCEL intranet.

require SCEL to conduct name-based criminal records checks for applicants prior to hire. However, SCEL HR not only performs a SLED criminal records check³, but also performs an additional name-based background check on all applicants prior to extending an offer of employment, using a web-based search tool, commonly used by law enforcement, Accurant (formerly, Lexus Nexus). Since October 31, 2016, SCEL HR has consistently used this tool to execute name-based searches on all applicants prior to hire. The LAC did not meet with SCEL to discuss and understand HR's pre-employment screening process, leading to incorrect assumptions and an inaccurate finding.

The LAC report goes on to claim that *"Of the 120 active employee files reviewed, we found 35 (29%) employees did not have a criminal record check conducted prior to hire. Further, 11 of those employees have never had a criminal records check. We also found 25 (21%) employees submitted their employment application on or after their hire date, furthering the inability to perform the criminal records check prior to hire date."* In response to this statement to the LAC's draft report, SCEL provided a detailed catalog of documents for all 120 employees, which included application submission dates, hire dates, and SLED check run dates. SCEL's review shows that 11⁴ employees have a SLED Check run date that follows the employee's hire date, compared to the finding of 35 by the LAC. Of those 11 employees, four (4) were part-time Draw Talents⁵, five (5) were hired during the Lottery's start up in 2001, and the remaining two (2) were anomalies, with hire dates respectively in 2005 and 2016.

There were ten⁶ files missing a criminal records check altogether, not 11 as reported by the LAC. All ten of these employees were hired in 2007, or prior. Additionally, SCEL HR completed a criminal records check for these ten employees in response to the LAC draft report. None have a criminal conviction, nor any activity prohibited by SC Code Ann. §59-150-100.

Furthermore, our review shows eight (8) employees submitted their employment application on or after their hire date, compared to 25 as reported by the LAC. Of those eight (8) employees, four (4) were part-time Draw Talents⁷, one (1) was an intern hired into a part-time clerical position, and the remaining three (3) were anomalies, hired in 2016, or prior.

There are two (2) employees missing an employment application altogether, as opposed to the 11 reported by the LAC. One (1) employee was a temporary employee for two (2) months, prior to being hired into a permanent position. SCEL has a resume for this employee, however, because there was not a true vacancy for this position, an employment application was not submitted along with their resume. All other pre-employment materials are accounted for in this employee's file. The second of these employees was a part-time Draw Talent⁸, for which all other pre-employment materials are accounted.

Finally, there are four (4) employees who have employment applications in their file, however, they are either unsigned/undated, or the original application was replaced when the employee applied for another position within the agency. All employees in this category have a hire date of 2005, or prior. Without an original application date, a determination could not have been made by the LAC as to whether the application was submitted prior to the hire date.

Due to the large discrepancy of total findings: 10 (SCEL) compared to 25 (LAC) and the lack of questions asked by the LAC while they were onsite examining personnel files, SCEL can only surmise that the LAC confused the date in which the documents were digitized with the actual date the applications were submitted.

³ Name-based criminal records checks are conducted via SLED.

⁴ These numbers do not include the three (3) employees whose full files were recreated, as they were missing all three (3) pieces of documentation noted.

⁵ In December of 2021, there were six (6) individuals being transferred from 1099 status to W2 status, who perform only duties related to acting as Draw Talent for SCEL's terminal games. All paperwork for these six (6) individuals was submitted manually, as there were not true vacancies, but rather changes in employment status. The onboarding process was also conducted differently for this group of employees, as their work hours are weekday evenings and weekends.

⁶ See footnote 3.

⁷ See footnote 4.

⁸ See footnote 4.

Failure to Conduct Employee Performance Evaluations: The findings referred in this section are devoid of any material or verifiable facts, except that employee evaluations were halted in 2009⁹, resumed in the summer of 2022 (for evaluation of the previous year, 2021), and were being conducted during the LAC audit period and have continued on schedule and within budget. Additionally, the LAC states *“that employee evaluations were restarted in 2023.”* This is inaccurate because at the time of the LAC’s audit, one year of annual performance evaluations had been completed, with a review period of 2021-2022, and the 2022-2023 review period was underway. It may have been helpful if the LAC benchmarked or critiqued current/ongoing evaluations, rather than dwell on history that cannot be changed. Furthermore, SCEL restarted performance evaluations deliberately, without a suggestion from an outside auditor, to support ongoing performance and communication between SCEL’s employees and their supervisors.

The LAC reports that *“SCEL indicated in a December 2019 independent review by Elliott Davis on system and organizational controls at SCEL that ‘human resources or a designee conducts performance appraisals at least annually and may conduct additional reviews when there is a change in the job title or significant responsibilities.’”* SCEL’s former Internal Auditor provided the referenced information to external SOC2 auditors in December 2019. The Executive Director and Internal Auditor are the only positions at the SCEL that report directly to the Board of Commissioners. When employee evaluations halted for all other staff in 2009, the Board continued to conduct performance appraisals for these two positions (facilitated by the Human Resources Department). SCEL maintains documentation to support the performance evaluations for these two positions, however the LAC did not request this information.

Missing Personnel Files: The LAC reports that *“SCEL’s audit department had not considered the HR area as high risk and had not been informed by SCEL of the missing personnel files until we requested information about them.”* This incident occurred ten years ago. The SCEL Internal Auditor conducts an annual risk assessment and an annual employee self-assessment survey to evaluate the highest priorities for internal audits. In the three (3) years the current Internal Auditor has been with SCEL, HR operations have not ranked as high in the risk assessment as other departments and processes. However, in 2021, the HR department was included in an internal audit of compliance with the state Lottery Act, with no findings of non-compliance.

Failure to Adhere to SCEL’s Personnel File Checklist & Chart 3.1: The LAC reports in this section that they *“reviewed all 120 personnel files for active employees and found 97% (116) of active employees’ files were missing at least 1 piece of required documentation listed on the SCEL personnel file checklist. Of those files, 69% (83) were missing more than one piece of required documentation.”* *“Details of documentation missing from personnel files is shown in Chart 3.1.”* These statements are grossly inaccurate, and SCEL wishes to address this finding in three (3) parts:

- (1) The LAC finding that HR Files were missing *“at least 1 piece of required documentation”* is materially false, as some items on the checklist do not have an accompanying “document” at all. The checklist is simply a reminder of a task to be performed by an HR representative. Since some of the documentation was never housed in the personnel file¹⁰ and some items were merely tasks to be performed (i.e., the issuance of an ID badge), each personnel file would be missing “documents” corresponding to the checklist, and the failure rate would have been 100% by the LAC standard, instead of 97%. Yet, the LAC made no such finding.
- (2) Not all documents itemized on these checklists are required to be completed by Federal law or state law (including the SC Education Lottery Act), in order for an employee to be in compliance with these regulations. SCEL staff repeatedly offered to assist LAC staff in reviewing files, due to the ongoing digitization process. Nevertheless, SCEL is confident that no file is missing a document required by law, as SCEL has consistently received favorable remarks in this regard from our outside financial auditors. Had the LAC inquired, requested, or focused on documentation for compliance with Federal or state law, SCEL’s compliance rate would be 100%.

⁹ It is important to note that all performance issues from 2008 to present are documented formally in SCEL Human Resources and are typically stored separately from personnel files, unless the remediation includes a compensation adjustment.

¹⁰ Each employee has seven (7) files, in addition to their Personnel File. These files include: Benefits File, Leave File (General, FMLA & WC), EEOC Reporting Form File, Employee Relations File, Parking File, I-9/E-Verify File, and Emergency Medical File.

- (3) The data provided in Chart 3.1 is completely inaccurate, and the LAC failed to provide the updated data after receiving the correct information from SCEL in our draft response. SCEL identifies two (2) employment applications as being missing (compared to seven (7)), with the explanation detailed in the “Criminal Records” section above. SCEL identifies 23 reference checks as incomplete (compared to 66), of which 17 of the 23 were hired in 2006, or prior. SCEL found three (3) Non-Disclosure documents to be missing (compared to eight (8)), of which all employees were hired in 2008, or before. Finally, SCEL found seven (7) Addendum to Employment Offer Letters to be missing (compared to ten), of which six (6) of the seven (7) employees were hired in 2001.

The LAC goes on to state in this section that *“during the exit process, SCEL stated it used five methods {to conduct} reference checks, which include verification of employment; however, an employment verification and a reference check are not interchangeable terms or actions.”* Unfortunately, the LAC once again provides a statement that is untrue. In fact, Experian (a multinational consumer credit reporting agency) verifies that both documents intend to garner the same result by stating *“although employment verification and reference checks are often used interchangeably, each describes a distinct process but aims to produce accurate information about applicants’ employment history and job performance.”*

SCEL agrees with the LAC that *“proper documentation in personnel files is important”* which is likely the reason that SCEL has never been found to have discriminated against any current or past employee, for any reason, by the Equal Employment Opportunity Commission (EEOC) nor the SC Human Affairs Commission (SCHAC). The fact that SCEL has a pending (and unresolved) investigation is an irrelevant finding in this report. As previously shared with the LAC, SCEL vehemently denies the former employee’s allegations.

Finally, in this section the LAC reports that *“SCEL did not complete all relevant fields of its payroll action forms.”* SCEL provided a detailed explanation of the history of this form, and its purpose in our draft response, which was completely ignored and gave way to another false finding. When a Payroll Action Form is completed, not all fields are required to be completed, unless the field is being changed from what is currently in the system of record (ADP). Completing all of these fields on paper forms, especially SSN, birthdate, or other personal identifying information, only creates further vulnerability for employees. The critical components of all Personnel Action Forms are complete, which includes the employee’s name, effective date, and type of change. The “missing information” cited by the LAC is redundant to what is already stored electronically in ADP. The lack of a redundant information on a form is not a sufficient factual basis for a material finding. With no factual basis for a material finding (no evidence of inadequate controls or controls not being followed), this finding is irrelevant.

Employee Pay Increases and Chart 3.2: The most egregious shortcoming in the LAC report relates to compensation adjustments. SCEL followed a very methodical, meticulous, seven-phase process over five (5) fiscal years to bring employees in line with pay ranges established in a classification and compensation study, performed by a third-party firm. From 2017 to 2020, SCEL implemented the recommendations from the study, which focused on a job’s market value, paired with an employee’s time in the position. This plan was initially slated to occur in five (5) phases before resuming annual performance evaluations, which were scheduled to commence in 2020. However, due to the global pandemic, the phased approach was extended by two (2) additional phases, which included a cost of living increase (when inflation surged) and culminated with a move to merit based adjustments based on written performance evaluations in 2022, for the 2021-2022 review period.

The SCEL Board was fully apprised of this process and approved the implementation of the study. Extensive documentation was repeatedly provided to the LAC, but the report fails to include any reference to that documentation or include appropriate context for the pay adjustment process. Instead, the LAC chose to pull a “judgmental” sample of salary increases, not to be shared with SCEL, which SCEL could not replicate due to the details being so vague. With the access that the LAC had to ADP (all employee HR/Payroll records), the LAC could have easily reviewed the entire payroll data set without selecting a judgmental sample. Doing so would have provided a complete picture, not one possibly distorted by sampling. Again, SCEL invited the LAC to review our data with their findings to no avail.

Therefore, SCEL staff reviewed pay adjustments (446 records) for all active employees and determined the LAC findings were erroneous. For the six-year review period used by the LAC (July 2017 through June 2022), in every employee file where an adjustment was made, SCEL has the signed justification document (Personnel Action/Payroll Request Form) which noted the reason for the salary increase. However, five (5) of the 446 forms were completed without the type of change/reason, and coded in ADP under General Increase. These five (5) forms were otherwise complete with name, effective date, and approval information; however, the approval was clear. Therefore, the LAC finding that 18 pay increases “*did not include the proper justification to support the pay increase*” is simply wrong, as SCEL could only locate five (5) incomplete forms in their review of all 120 active employee files over the six-year period. Again, when SCEL offered to explain how it arrived at its numbers in an attempt to ensure accuracy, the LAC failed to accept the offer. The LAC did not even request renewed access to ADP to review their own work product against the data submitted by SCEL in our draft response. The LAC should have felt compelled to verify the accuracy of their finding, especially when SCEL HR provided supporting documentation which contradicted their conclusions.

Additionally, in this section the LAC references “*SC Reg. 19-705.04 states in-band salary increases require agencies to maintain written justifications*”, which is completely irrelevant because SCEL is, and remains, exempt from this regulation, as previously explained in response to the LAC draft report. The foregoing explanation provided above is more than an adequate factual basis to demonstrate that SCEL uses best practices, and is more than fair and equitable in its approach to compensation.

The LAC did not evaluate compliance with the Code which is applicable to SCEL compensation practices. SC Code Ann. §59-150-100(A) states that “*the commission shall establish and maintain a personnel program for its employees and fix the compensation and terms of compensation of its employees.*” The SCEL Board of Commissioners adopted a pay philosophy in its board meeting held on May 9, 2007, which SCEL has followed since the philosophy’s inception. SCEL complies fully with SC Code Ann. §59-150-100(A) through the implementation and administration of the compensation and classification plan that was executed in 2017. The full compensation study was provided to the LAC, along with the associated request for proposal documents and Board summary, review, and approval documents, which should have been more than sufficient documentation of SCEL’s policies and procedures in regards to the administration of the compensation plan.

The factual deficiencies in this section of the LAC report could have been easily resolved if the LAC had sought collaboration from SCEL. The LAC praised SCEL’s timely responses to requests for documents and overall cooperation, but the LAC did not engage in a thorough review, despite SCEL’s encouragement to do so. That type of review would have required a desire to learn how a professional HR department operates, rather than making assumptions and attempting to arrive at a “checklist scorecard” finding that is not accurate or grounded in fact. The lack of conversations with SCEL, paired with the apparent failure to trust SCEL’s offers of assistance to better understand their processes, calls in to question the verity of the LAC’s core findings.

Implementation of Prior Recommendations:

June 2019 Recommendation 28: The General Assembly amended state law regarding whether disclosure of the identity of lottery prize claimants is required. The Governor signed H. 3872 into law on February 5, 2024.

Recommendation Responses:

- 1. SCEL should conduct undercover retailer compliance visits on at least 5% of all lottery retailers annually.**
Already implemented. SCEL relayed this standard to the LAC during the audit as it related to FY 24-25.
- 2. SCEL should revise the form to document its undercover retailer compliance visits to accurately reflect its undercover operations.** Already implemented.
- 3. SCEL should develop formal policies and procedures to ensure lottery retailers in all counties are visited during undercover retailer compliance visits annually.** SCEL will strive given its resources and other enforcement duties to visit lottery retailers in all counties every two (2) years of undercover retailer compliance visits.
- 4. SCEL should develop formal policies and procedures to ensure lottery retailers previously involved in misconduct are visited during undercover retailer compliance checks.**

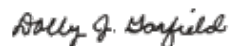
SCEL will continue to ensure that lottery retailers previously involved in intentional and relevant misconduct are visited during undercover retailer compliance checks

5. **SCEL should track whether a retailer implements the conditions the agency imposes after a retailer is involved in misconduct.** SCEL agrees to implement.
6. **SCEL should implement a new centralized case management system to track the investigation, actions taken, and conditions imposed related to retailer misconduct.** Already implemented. SCEL launched the Kaseware management software on January 3, 2024.
7. **SCEL should establish internal controls to ensure its security and investigations department staff verify identifying retailer information is accurate to reduce the likelihood of errors when documenting retailer misconduct.** Already implemented.
8. **SCEL should implement formal policies and procedures identifying tasks marketing sales representative and regional sales managers should complete when interacting with retailers.** SCEL agrees to implement.
9. **SCEL should determine which reports from Sales Wizard are most useful to its mission and should review those reports at least quarterly.** SCEL agrees to implement but will evaluate the frequency.
10. **SCEL should implement formal policies and procedures requiring marketing sales representatives to document the tasks completed during retailer visits in Sales Wizard.** Already implemented.
11. **SCEL should implement formal policies and procedures requiring regional sales managers to verify marketing sales representative adequately document, in Sales Wizard, the tasks completed during retailer visits.** SCEL agrees to implement and will evaluate the most effective tasks to be documented.
12. **SCEL should require all retailers to maintain signed employee acknowledgements that they have trained their staff on lottery rules, policies, and procedures.** SCEL will evaluate its current retailer and retailer staff training requirements.
13. **SCEL should monitor completion of signed employee acknowledgments annually to ensure retailer employees are trained by store management.** Please see response to Recommendation 12.
14. **The General Assembly should amend state law to eliminate authorization of the Lottery Retailer Advisory Board in S.C. Code §59-150-110.** SCEL has no position.
15. **The South Carolina Education Lottery should establish and maintain a comprehensive list of email addresses for all lottery retailers.** SCEL will implement.
16. **SCEL should require lottery retailers to provide a direct mailing address for each store location.** Already implemented. SCEL has a physical mailing address for every retail location.
17. **SCEL should provide annual training for its marketing sales representatives.** SCEL will evaluate its current marketing sales representatives training.
18. **SCEL should provide tablet computers for its marketing sales representatives.** SCEL has already initiated implementation of this recommendation.
19. **SCEL should create and maintain a comprehensive human resources manual outlining the policies and procedures of the agency, as well as the human resources division.** Partially implemented.
20. **SCEL should develop a policy encompassing what is considered a clear background investigation for the purposes of employment.** SCEL agrees develop a policy of current practices.
21. **SCEL should comply with state law by conducting a name-based criminal records check prior to hiring an employee.** Already implemented. Name-based criminal records checks are done via SLED checks and Accurant searches before hiring an employee.
22. **The General Assembly should amend the South Carolina Education regulations to require a pre-hire criminal records check, to include a fingerprint scan, to capture any criminal records outside of South Carolina.** SCEL has no position.
23. **SCEL should conduct a name-based criminal records check on all active employees on a cycle of every three years.** SCEL agrees to implement but will determine frequency.
24. **SCEL should define, in policy, how to address employment should the criminal record status of an employee change.** SCEL agrees to implement.

25. **SCEL should develop a policy addressing the purpose, frequency, and expectations of employee performance evaluations.** SCEL agrees to implement by developing a formal, written policy of how employee performance evaluations are currently being conducted.
26. **SCEL should continue to conduct performance evaluations for all employees on an annual basis.** Already implemented.
27. **SCEL should complete its migration of personnel files to a digital database by March 2024.** SCEL agrees to implement by December 31, 2024.
28. **SCEL should develop a policy ensuring any issues with the security of employees' confidential personnel files are handled appropriately, including informing the affected employees when there has been a possible breach of security.** SCEL agrees develop a formal, written policy of how SCEL currently handles a possible breach of security affecting employees.
29. **SCEL should conduct an in-house review of all personnel files to ensure required documentation has been completed and included.** Already implemented as response to the LAC draft report.
30. **SCEL should develop a policy and procedure to conduct in-house personnel file reviews on an annual basis.** SCEL agrees to partially implement. SCEL agrees to develop a quality assurance process when a change is made to a personnel file.
31. **SCEL should maintain written justifications for salary increases.** Already implemented.
32. **The General Assembly should amend state law to allow players of the South Carolina Education Lottery to purchase lottery tickets using a debit card.** SCEL and the SCEL Board of Commissioners are in agreement.
33. **The General Assembly should amend state law to allow players of the South Carolina Education Lottery to purchase lottery tickets from a vending machine.** SCEL has no position.
34. **If the General Assembly amends state law to allow players to purchase lottery tickets from a vending machine, SCEL should develop a process, and written policy, to install vending machines in lottery retailer locations.** SCEL agrees to implement if requisite statutory changes are made.
35. **SCEL should have a security guard physically located at its claims center during business hours.** SCEL contracts with the Bureau of Protective Services and necessary security personnel are provided when needed.
36. **SCEL should install panic buttons for the greeter at the claims centers main entrance.** SCEL agrees to implement.
37. **SCEL should continue the process toward certification from the Responsible Gambling Verification Program for Lottery Organizations.** Already implemented.
38. **SCEL should enhance the usability of its website by adding a search bar.** SCEL agrees to implement.
39. **SCEL should add, on its website, an online appointment scheduler for the claims center.** This recommendation is not necessary as heavy volume of winners is not a daily occurrence and wait times are reasonable. Messaging regarding wait time is updated on the website during these rare heavy volume occurrences.
40. **SCEL should provide the option for claimants to make an appointment to be served at the claims center.** Please see response to Recommendation 39.

Thank you for the opportunity to comment. Again, we appreciate the opportunity to work with you for the benefit of SCEL and the state of South Carolina.

Respectfully,



Dolly J. Garfield
Executive Director

cc: Tammy D. Saunders

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