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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

594-45000-10

REPORT DIGEST

**DEPARTMENT OF THE LOTTERY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1994**

SYNOPSIS

- The Department needs to develop and implement more stringent policies and procedures governing their investment bidding practices.
- The Department needs to implement policies and procedures calling for routine reconciliations of its annuity records with those of the insurance companies.
- The Department needs to strengthen their internal controls over the distribution of payroll warrants and comply with State statutes governing scheduled pay dates.

{Expenditures and Activity Measures are summarized on the reverse page.}

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RECYCLED PAPER • SOYBEAN INKS

DEPARTMENT OF THE LOTTERY
COMPLIANCE AUDIT
For The Year Ended June 30, 1994

EXPENDITURE STATISTICS	1994	1993	1992
• Total Expenditures (All Funds)	\$946,748,743	\$939,589,929	\$970,071,722
<u>OPERATIONS TOTAL</u>	\$52,963,132	\$53,728,876	\$51,477,018
% of Total Expenditures	5.6%	5.7%	5.3%
Personal Services	\$7,471,636	\$7,090,982	\$6,894,897
% of Operations Expenditures	14.1%	13.2%	13.4%
Average No. of Employees	292	291	287
Other Payroll Costs (FICA, Retirement)	\$2,168,987	\$2,193,762	\$2,212,524
% of Operations Expenditures	4.1%	4.1%	4.3%
Contractual Services	\$22,050,350	\$21,018,860	\$19,357,246
% of Operations Expenditures	41.6%	39.1%	37.6%
Game Promotion	\$9,125,893	\$9,240,117	\$9,693,231
% of Operations Expenditures	17.2%	17.2%	18.8%
Electronic Data Processing	\$2,034,544	\$2,035,134	\$2,029,463
% of Operations Expenditures	3.8%	3.8%	4.0%
Telecommunications	\$8,705,140	\$10,687,649	\$9,691,507
% of Operations Expenditures	16.5%	19.9%	18.8%
All Other Operations Items	\$1,406,582	\$1,462,374	\$1,598,150
% of Operations Expenditures	2.7%	2.7%	3.1%
<u>COMMISSIONS AND FEES</u>	\$99,069,583	\$101,106,435	\$103,495,757
% of Total Expenditures	10.5%	10.8%	10.7%
<u>PRIZES</u>	\$794,716,028	\$784,754,618	\$815,098,947
% of Total Expenditures	83.9%	83.5%	84.0%
• Cost of Property and Equipment	\$4,331,184	\$4,396,210	\$4,650,891

YEAR ENDED JUNE 30,

SELECTED ACTIVITY MEASURES	1994	1993	1992
• Ticket Sales	\$1,472,626,392	\$1,507,033,033	\$1,579,309,012
• OPERATING TRANSFERS TO:			
Common School Fund	\$557,068,720	\$589,443,800	\$611,655,207
Audit Expense Fund	\$-0-	\$162,152	\$-0-
General Revenue Fund	\$-0-	\$-0-	\$500,000

AGENCY DIRECTOR(S)

During Audit Period: Desiree Glapion Rogers, Director
Currently: Desiree Glapion Rogers, Director

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INVESTMENT BIDDING PROCEDURES

The Department obtained bids from investment brokers for future prize payments on a verbal basis. Of twelve bid files reviewed, the hard copy confirmation was not received for 38 of 55 bids in a timely manner or not received at all.

Prudent business practices and strong internal controls dictate that the Department receive bids from investment brokers in a written form to enable Department personnel to evaluate the quality of investment products offered. The Department was unaware of the weakness associated with inadequate investment bidding practices.

In addition, the Department was not aware of the importance of following the procedures currently in place. According to current Department policies and procedures, the "...winning offeror must send a hard copy confirmation by telecopier the same day to the Lottery...detailing the price and yield of each individual maturity as well as the total cost and maturity value...". Department procedures further state that "all offerors, even though not the winning offeror, shall send a copy of their offering sheet by telecopier...immediately following the bidding...".

The Department concurred with our recommendation to develop and implement more stringent bidding policies and procedures. (Finding 1, page 9)

INACCURATE DEPARTMENT ANNUITY RECORDS

The Department failed to routinely reconcile its annuity records for prize winners with those of the insurance companies and update Department records accordingly. The Department purchased annuities from various insurance companies until mid - 1985 to pay prize winners. The Department's annuity records did not agree with those of the insurance companies.

An example of the kind of exceptions noted was twelve prize winners/policy holders were deceased and the estate or beneficiary had been paid a lump sum by the insurance company. However, the Department's annuity records continued to show a balance of approximately \$7.8 million.

Although there was no impact to the Department's financial statements, prudent business practices and strong internal controls dictate that the Department routinely reconcile its annuity records with those of the insurance companies and update Department records accordingly. Because the financial responsibility for payment had transferred to the insurance companies, the Department was unaware of the need to reconcile their records.

Department officials said they would implement policies and procedures to routinely reconcile and update their annuity records. (Finding 2, page 11)

INADEQUATE CONTROLS OVER THE DISTRIBUTION OF PAYROLL WARRANTS

The Department distributed payroll warrants to employees before the scheduled pay dates. Also, payroll warrants for regional office employees were mailed to the employees' homes

instead of being distributed by the regional office supervisor.

State statutes require the Comptroller to prepare a schedule showing the dates on which all employees of the State shall be paid. Distribution before the scheduled pay date could cause the State to be in violation of federal law which requires the deposit of federal taxes withheld and employer taxes the first banking day following payment. The Comptroller's Office can deposit on the proper day only if employees are paid on the scheduled pay date.

Strong internal controls dictate that the Department have policies and procedures in place to either require supervisors to distribute regional office payroll warrants or require internal audit to conduct surprise distributions of regional office payroll warrants.

The Department concurred with our recommendations to correct these deficiencies. (Finding 4, page 14)


OTHER FINDINGS

The remaining findings are less significant and have been given appropriate attention by the Department. We will review The Department's progress towards the implementation of our recommendations in our next audit.

Ms. Desiree Glapion Rogers, Director, of the Department of the Lottery, provided the responses.

AUDITORS' OPINION

The auditors report that the financial statements of the Department of The Lottery at June 30, 1994 are fairly stated.



WILLIAM G. HOLLAND, Auditor General

WGH:TEE:jr
March 30, 1995

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit findings	5	6
Repeated findings	1	3
Recommendations implemented or not repeated	5	5

SPECIAL ASSISTANT AUDITORS

Pandolfi, Topolski, Weiss & Co., Ltd. were our special assistant auditors for this audit.