

**REPORT DIGEST**

**DEPARTMENT OF THE LOTTERY  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE YEAR ENDED JUNE 30, 1992**

## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

### **LACK OF FORMAL POLICIES AND PROCEDURES ON PORTFOLIO MANAGEMENT**

The Department has not established formal policies and procedures for the management of the deferred prize winners' trust fund - a portfolio of \$1,136,732,765. Failure to consider the possibility of trading investments to increase the rate of return on the portfolio could be costly to the State.

The Department purchased U.S. Government Securities (Zero Coupon Bonds) which mature in annual installments over 19 years for an "exact match" of future prize liabilities. Neither the State Treasurer, as ex-officio custodian of the portfolio, nor the Department, as practical administrator of the fund, has traded an investment to generate a profit.

The Department agreed with our recommendation and engaged an investment management firm to appraise, analyze and recommend a portfolio restructuring strategy; however, their recommendations have not been implemented pending approval of the State Treasurer and the Governor. (Finding 1, page 9)

### **ADDITIONAL PROCEDURES NEEDED FOR MONITORING LOTTERY AGENTS**

#### **Failure to compile complete audit information from settlement envelopes**

The Department did not make full use of information obtained from their audits of settlement envelopes of Lottery agents. The Department collected the data generated as a result of these audits on instant tickets; however, they did not quantify this data to the agent level. With the error rate and the exception quantified at the agent level a list of problem agents could be developed. In most cases, the Department did not communicate information obtained from the audits to their sales representatives. Not informing field representatives of problems causes all agents to be treated the same, rather than paying extra attention to those agents that need closer monitoring. (Finding 2, page 10.)

Department officials said implementation of their instant ticket validation system will end the need for sending any winning tickets in for validation. They further agreed that a "problem agent" database will be implemented during FY 93.

#### **Failure to reduce the number of inactive agents**

The Department has 1,285 inactive agents out of a total of 9,580, or 13.4%. The Department has failed to collect an average of \$2,300 per inactive agent.

The Department has not been able to decrease the number of inactive agents which has continued to remain constant. The Department should analyze information about its inactive agents to determine the actions that might be taken to reduce the number of such agents. Failure to create a database of inactive agents could make it difficult to monitor operations. (Finding 3, page 12)

Department officials said that they will develop a program whereby the inactive agents can be easily analyzed.

### **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, 1992 are fairly stated.

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WILLIAM G. HOLLAND, Auditor General

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### **SUMMARY OF AUDIT FINDINGS**

Number of This Audit Prior Audit

Audit findings 8 12

Repeated findings 3 2 \*

Recommendations implemented or  
not repeated 9 7 \*

\* Two findings were partially implemented and are shown as both implemented and repeated.

### **SPECIAL ASSISTANT AUDITORS**

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

