

EXECUTIVE DIGEST

BUREAU OF STATE LOTTERY

INTRODUCTION

This report, issued in November 1998, contains the results of our performance audit* of the Bureau of State Lottery, Department of Treasury.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

The Bureau of State Lottery was created by Act 239, P.A. 1972 (Sections 432.1 - 432.47 of the *Michigan Compiled Laws*). As part of a 1991 Statewide reorganization, the Bureau was transferred as an autonomous entity to the Department of Treasury pursuant to Executive Reorganization Order 1991-2. The Bureau is administered by the Commissioner, who is appointed by the Governor with the advice and consent of the Senate.

The Bureau's mission* is to generate revenue for the State of Michigan consistent with the public good, to provide quality entertainment to the public, and to maintain the integrity of its games and activities. The Bureau generates revenue by offering on-line games, such as the Big Game, Michigan Lotto, Cash 5, Daily 3 and 4, and Keno, and various instant ticket games. The net income generated

by these games is transferred to the State's School Aid Fund.

The Bureau generated record ticket sales of approximately \$1.6 billion for fiscal year 1996-97. This resulted in a transfer to the State's School Aid Fund of approximately \$586 million. As of September 30, 1997, the Bureau had 182 employees.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the Bureau's efforts and methods for evaluating the performance of its professional and technical contractual service providers.

Conclusion: The Bureau's efforts and methods for evaluating contractors provided reasonable assurance that the contractors performed in a satisfactory manner. However, our assessment disclosed a reportable condition* related to the monitoring and evaluation of contractors (Finding 1).

Audit Objective: To evaluate the effectiveness of the Bureau's process for licensing retailers and thereby maintaining the integrity of lottery games and activities.

Conclusion: The Bureau's process for licensing retailers was reasonably effective in maintaining the integrity of lottery games and activities. However, we identified four reportable conditions related to retailer background checks, retailer disciplinary action, the retailer manual, and lottery rules (Findings 2 through 5).

Audit Objective: To evaluate the effectiveness of the Bureau's efforts to maximize sales consistent with the public good.

Conclusion: The Bureau's efforts to maximize sales were generally effective. However, we noted three reportable conditions related to retailer sales performance requirements, retailer field support, and ticket switching* policy (Findings 6 through 8).

Noteworthy Accomplishments: For the fiscal year ended September 30, 1997, the Bureau had record sales of approximately \$1.6 billion, representing a 12.4% increase over the previous year's sales. These statistics prompted *International Gaming & Wagering Business (IGWB)* to name Michigan as the top-performing U.S. lottery for fiscal year 1996-97, one of only two lotteries to achieve a double-digit percentage increase in year-to-year sales growth. *IGWB* also ranked Michigan as one of the more efficient lotteries based on the percentage of government revenue generated from sales dollars.

Audit Objective: To assess the effectiveness of the Bureau's management controls over selected administrative functions.

Conclusion: The Bureau's management controls provided reasonable assurance that its administrative functions were performed in a proper manner. However, our assessment disclosed three reportable conditions related to contractual service procurement, mail receipts, and assignment of functional responsibility codes (Findings 9 through 11).

Audit Objective: To assess the effectiveness of the Bureau's internal control structure* over the automated information systems in ensuring that lottery data was reliably and securely processed.

Conclusion: The Bureau's internal control structure over its automated information systems was generally effective in ensuring that lottery data was reliably and securely processed. However, we noted two reportable conditions related to access controls* and physical site security (Findings 12 and 13).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Bureau of State Lottery. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit did not include the Bureau's Charitable Gaming Division.

Our methodology included examining the Bureau's records for the period October 1, 1994 through October 31, 1997. Our methodology also included conducting a preliminary survey of the Bureau's operations. We designed tests of the Bureau's operations and performed these tests to meet our audit objectives. The tests included examining contracts and evaluating procedures related to oversight of contractors. Also, we conducted tests of records related to granting licenses to lottery retailers. In addition, we conducted trend analyses of sales, net profits, retailer commissions, and accounts receivable.

AGENCY RESPONSES

Our audit report contains 13 findings and 15 corresponding recommendations. The Bureau agreed with 13 of the recommendations and disagreed with 2 recommendations.