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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 24, 1997

Mr. Jeff Perlee
Director
Division of the Lottery
One Broadway Center
Schenectady, New York 12301

Re: Report 96-F-35

Dear Mr. Perlee:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we have reviewed the actions taken by officials of the Division of the Lottery (Lottery) as of April 15, 1997 to implement the recommendations contained in our prior audit report 95-S-36. Our prior report, which was issued October 31, 1995, examined Lottery's revenue collection controls and ticket accountability for instant games.

Background

The Division of the Lottery (Lottery) administers games of chance to raise revenue for public education. The games are operated by GTECH Corporation (GTECH) under a contract with Lottery, and tickets for the games are sold by about 12,300 agents located throughout New York State. Two types of games are offered: numbers games, in which winning numbers are periodically announced; and instant games, in which part of the ticket is scratched off to reveal whether the player has won a prize. Lottery officials told us that for the fiscal year ended March 31, 1997, lottery sales totaled \$4 billion, of which \$1 billion is instant game revenue.

Summary Conclusion

In our prior audit, we found that Lottery's controls over revenue collection and ticket accountability from instant games were generally reliable. We did, however, identify ways in which these controls could be made stronger. In our April 1997 follow-up review, we found that Lottery has taken appropriate action to implement most of our recommendations.

Summary of Status of Prior Audit Recommendations

Of the six prior audit recommendations, Lottery officials have fully implemented five recommendations and not implemented one recommendation.

Follow-up Observations

Recommendation 1

Ensure that the revenue transferred from the ticket agents' accounts is secured in a State account as promptly as possible.

Status - Implemented

Agency Action - Lottery has established a second EFT bank account in the State's name and the funds are being transferred to Lottery on the same day they reach the on-line contractor's account following the sweep of the agent network. Lottery's Internal Audit Unit reviewed five weekly transfers and confirmed that the funds are transferred from the contractor to Lottery and from Lottery to the State Comptroller's Office on the same day. We reviewed the internal audit report and work papers and confirmed the transfers were made on the same day.

Recommendation 2

Ensure that only enough funds to cover the costs of the electronic transfers are left overnight in the noninterest-bearing account and ensure that these costs are the responsibility of both GTECH and Lottery.

Status - Implemented

Agency Action - A specific sequence of priorities has been established identifying the source of funds to be applied to the EFT bank's specific charges for services. GTECH's contracts have been amended accordingly. An agreement with the EFT bank, which reflects the source and use of funds in the priorities identified in the contract, has been completed.

Recommendation 3

Require GTECH's central account to be reconciled and audited on an ongoing basis. Consider using Lottery staff to perform these reconciliations and audits.

Status - Implemented

Agency Action - Lottery's Internal Audit Unit performed independent bank reconciliations for five randomly selected months and will continue to perform periodic independent reviews. Effective April 1997, the On-line Games Unit will obtain copies of the bank statements directly from Chase and will be reviewing significant items.

Recommendation 4

Use Lottery staff to investigate the discrepancies identified during the testing of GTECH's system for determining the instant game revenue due the State.

Status - Not Implemented

Agency Action - In the response to our audit, Lottery officials told us they did not have a data processing expert on staff who is familiar with all facets of the software developed by the vendor. Officials felt it was GTECH's responsibility to debug and resolve problems that Lottery found in the GTECH systems. Lottery officials continue to maintain this position. However, as part of their fiscal 1997-98 Executive Budget request, they have included a new position of EDP Auditor. Part of the responsibilities for this position would be to audit the contractor's mainframe system and the telecommunications systems for both Lottery and its on-line contractor.

Recommendation 5

Ensure that instant game tickets are inspected when they are delivered to GTECH's warehouse.

Status - Implemented

Agency Action - In the response to our audit, Lottery officials told us they require GTECH to examine shipments of instant game tickets received from the printer at GTECH's warehouse. Lottery officials furnished GTECH with a copy of the inventory tape they receive from the printer, which contains the serial number of all books printed and designates separately defective books. GTECH loads this data onto its computer to maintain an automated perpetual inventory record. To verify the controls over these procedures, Lottery requested their independent accounting firm to test the controls as part of its annual SAS 70 report.

Recommendation 6

Ensure that the monthly physical inventories of instant game tickets are performed properly.

Status - Implemented

Agency Action - Lottery officials responded to our audit that they had instructed GTECH to count each game's inventory at least monthly and report the results to the Gaming Services Unit for

comparison to Lottery's independent perpetual records. Gaming Services performs periodic independent physical inventories of the tickets and compares these to their perpetual records.

Major contributors to this report were Marvin Loewy, Arthur Smith and Richard Loveless.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address the unresolved matters discussed in this report. We also wish to thank the management and staff of the Division of the Lottery for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Kevin M. McClune
Audit Director

cc: Patricia Woodworth