

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
CONNECTICUT LOTTERY CORPORATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009*

**AUDITORS OF PUBLIC ACCOUNTS**  
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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November 17, 2010

**AUDITORS' REPORT  
CONNECTICUT LOTTERY CORPORATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

We have examined the books, records, and accounts of the Connecticut Lottery Corporation (hereafter referred to as the Corporation or the Lottery), as provided in Section 2-90 and Section 1-122 of the General Statutes, for the fiscal year ended June 30, 2009.

**SCOPE OF AUDIT:**

This audit was primarily limited to performing tests of the Corporation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, including but not limited to a determination of whether the Corporation has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the Corporation's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on its financial operations in order to determine our auditing procedures for the purpose of evaluating the Corporation's financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the Corporation's activities during the fiscal year in the five areas identified above and a review of other such areas as we considered necessary. The financial statement audit of the Connecticut Lottery Corporation, for the fiscal year ended June 30, 2009, was conducted by the Corporation's independent public accountants.

## COMMENTS

### FOREWORD:

The Connecticut Lottery Corporation operates primarily under Chapter 229a, Sections 12-800 through 12-834 of the General Statutes. Pursuant to Section 12-802 of those Statutes, it is a public instrumentality and political sub-division of the State. Also, pursuant to Chapter 12 of the General Statutes, the Lottery is classified as a quasi-public agency subject to various statutory requirements related to those agencies. As a quasi-public agency, the Corporation's financial information is included as an Enterprise Fund in the State of Connecticut's Comprehensive Annual Financial Report (CAFR) as a blended component unit of the State.

Sections 12-800 through 12-834 of the General Statutes established the Connecticut Lottery Corporation to take over the operation of the Lottery from the Division of Special Revenue. The central purpose of the Corporation is to provide increased revenue to the State. As such, the Corporation was set up to operate and manage the Lottery in an "entrepreneurial and business-like manner" as a quasi-public agency. Such agencies, working in an environment relatively free from budgetary and other constraints compared to traditional State agencies, can be more responsive to the marketplace.

By law, the Connecticut Lottery Corporation is not allowed to sell the Lottery or to modify lottery games that would violate any agreement the State has with the Mashantucket Pequots, the Mohegans, or any other Federally recognized Native American Tribe. Also, Section 12-818 of the General Statutes requires the Corporation to annually transfer \$1,500,000 to the chronic gamblers treatment and rehabilitation program account for the fiscal year ended June 30, 2007, and for each fiscal year thereafter. It should be noted that Public Act 07-1, enacted in the June 2007 Special Session, required an additional transfer to the chronic gamblers treatment program of \$448,000 for the fiscal year ended June 30, 2009. Further, Public Act 09-3, enacted in the June 2009 Special Session and codified in Section 12-818 of the General Statutes, requires that, for the fiscal years ending June 30, 2010, and June 30, 2011, the Lottery transfer \$1,900,000 to the program.

The Lottery provides two categories of game products: instant "scratch" tickets and computer-based on-line games. During the audited period, the Corporation offered the following games within the two categories.

- **Scratch games** are played by scratching off the latex covering of the play area on the ticket. A number of different instant games are in circulation during a given period, each with a determinate payout. Instant tickets were introduced to the market in September of 1975 and have become the largest contributor to total sales and resulting contributions to the State of Connecticut's General Fund.
- **Play3 Night** is an on-line game that is available to consumers on a daily basis. Players pick three numbers from a range and choose among different play options. This game has been in existence in similar form since 1977.

- **Play4 Night** is an on-line game that was introduced in 1980. Players select four numbers from a range and choose from different play options.
- **Classic Lotto** is the original on-line jackpot game that was introduced in 1983. Two drawings are held each week. Players pick six numbers from a range of numbers. The minimum jackpot is \$1 million.
- **Cash 5** is an on-line game with a top prize of \$100,000 that was introduced in 1992 and is played seven days a week. Players pick five numbers from a range of numbers.
- **Powerball** is a multi-State, multi-jurisdictional Lottery game that is played twice each week. Players select six numbers from a range of numbers. The game was introduced to Connecticut players in 1995.
- **Play3 Day** and **Play4 Day** on-line games were introduced in February 1998. These games are played on a daily basis at mid-day. They are played in a similar manner as the Play3 Night and Play4 Night games.
- **Lucky-4-Life** is an on-line game that was introduced in March 2009. Drawings are held twice a week. Players pick five numbers from a range of numbers. The top prize is \$2,000 a week for life, with a minimum guaranteed prize payout of 20 years.

On January 31, 2010, subsequent to the audited period, the Corporation introduced a new multi-State on-line game, Mega Millions. Drawings are held twice a week on Tuesday and Friday nights. Players select six numbers from a range of numbers.

Also, subsequent to the audited period and effective August 2, 2009, the Corporation amended Section 3(c)(2) of the Rules of Operation. The amendment reduces the amount of time in which a lottery player may claim a lottery prize from one year to 180 days.

Organizationally, the Connecticut Lottery Corporation is composed of six major divisions:

Finance:

Responsible for disbursements, accounts payable, collections, and revenue accountability.

Marketing and Sales:

Responsible for designing and promoting game products and the monitoring of retailers for compliance with sales and game requirements.

Administration and Operations:

Responsible for Lottery claims, purchasing services, information systems, and receipt, control, and disbursement of game products.

Human Resources:

Responsible for payroll and human resources.

Legal

Responsible for providing legal advice and serving as the Lottery's liaison to the Legislature.

Security

Responsible for fraud prevention, investigations, and enforcement of Lottery policies governing retail sales agents, as well as security related to Lottery buildings, assets, games and personnel.

**Board of Directors and Administrative Officials:**

Pursuant to Section 12-802, subsection (b), of the General Statutes, the Connecticut Lottery Corporation is governed by a 13 member Board consisting of 11 appointees of various elected officials and two State office holders. The State Treasurer and the Secretary of the Office of Policy and Management serve as ex-officio members of the Board of Directors.

Of the 11 appointed members, five are appointed by, and serve at the pleasure of, the Governor. The Governor is required to appoint directors who have skill, knowledge, and experience in the fields of management, finance, or operations in the private sector. The six remaining appointees are chosen by various legislative leaders. Appointed members serve at the pleasure of the appointing authority. Board members receive no compensation, but are entitled to reimbursement for expenses incurred in the performance of their duties.

As of June 30, 2009, the members of the Board of Directors were as follows:

Ex Officio:

Gale A. Mattison, Vice Chairperson, designee of the Secretary of the Office of Policy and Management, Robert L. Genuario

Robert Morgan, designee of State Treasurer Denise L. Nappier

Governor Appointments:

John S. Paul, Chairperson  
Margaret L. Morton  
Patricia Racz  
Wendy B. Kingsbury  
Carolyn C. Long

Legislative Appointments:

Steven A. Bafundo  
Patrick M. Birney  
Kenneth J. Saccente  
Martin E. Stauffer

There were no changes to the Board of Directors in the fiscal year ended June 30, 2009. As of June 30, 2009, there were two unfilled Board positions.

Subsection (c) of Section 12-802 of the General Statutes provides that the Chairperson of the Board shall be appointed by the Governor with the advice and consent of the Legislature. On January 25, 2007, John S. Paul was appointed Chairperson and continues to serve in that capacity.

On February 29, 2008, Anne M. Noble was appointed to the position of President and Chief Executive Officer of the Connecticut Lottery Corporation and continues to serve in that capacity.

**Other Audit Examinations:**

An independent certified public accountant audited the books and accounts of the Lottery for the fiscal year ended June 30, 2009. That report expressed an unqualified opinion on the financial statements and reported no material weaknesses in internal control.

Section 1-122 of the Connecticut General Statutes requires that quasi-public agencies such as the Connecticut Lottery Corporation have a compliance audit performed annually. Such audits should determine whether these agencies comply with their own regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance. In accordance with this statute, we performed a compliance audit of the Lottery for the fiscal year ended June 30, 2009. We noted certain weaknesses in compliance and internal control, which are discussed in the “Condition of Records” and “Recommendations” sections of this report.

**RÉSUMÉ OF OPERATIONS:**

The Connecticut Lottery Corporation has contracted with approximately 2,800 licensed retailers throughout the State to offer lottery games for sale to the public. Only retailers who satisfy the Corporation’s established criteria are recommended for licensure to the State of Connecticut’s Division of Special Revenue. The Division of Special Revenue retained regulatory authority for such matters following the creation of the Connecticut Lottery Corporation.

On an ongoing basis, retailers deposit revenues generated from the sale of lottery games to the public into fiduciary type bank accounts. Once a week, those deposits (less canceled tickets, prize payouts, and retailer commissions) are “swept” into the Corporation’s Operating Account held by a major bank. The Operating Account, along with other Corporation bank accounts (i.e. Claims Account, Advance Account, Annuities Account, and Accounts Payable), is combined into a “Concentrator” account for overnight investment.

It should be noted that Public Act 09-2, effective April 1, 2009, and codified in Section 12-806 subsection (b)(15) of the General Statutes, provided that the Lottery may reduce the minimum retailer commission from five per cent of the retailer’s lottery sales to four per cent. The Lottery held a public hearing on May 7, 2009, to discuss an amendment to Section 9 of the Lottery’s Rules of Operation, which addresses the commission percentage paid to Lottery

retailers. Effective May 20, 2009, Section 9(a) of the Rules of Operation was amended. The amendment removes the provision that specifies a five percent retailer commission and instead provides that the Board of Directors may change retailer commissions upon approval of two-thirds of the Board members, provided that a public hearing on the matter is held within 90 days of the vote. To date, the Board has not elected to reduce retailer commissions from five percent.

**State Accounts:**

Section 3-27a of the General Statutes allows the Connecticut Lottery Corporation to deposit excess funds with the Treasurer in such fund or funds of the State as is considered appropriate. Excess funds represent the amount in cash accounts not immediately needed to meet current operating requirements. The “Concentrator” account, as described above, is evaluated daily, and available cash is invested with the Treasurer of the State of Connecticut in a short-term investment fund that provides a safe return on investment. Deposits with the State Treasurer’s Short Term Investment Fund (STIF) were \$6,137,844 as of June 30, 2009.

The Connecticut Lottery Corporation transfers to the Connecticut General Fund on a weekly basis the excess of sales revenue over the cost of game prizes, retailer commissions, and operational and administrative costs. Transfers to the General Fund from operations totaled \$283,000,000 for the fiscal year ended June 30, 2009.

The Connecticut Lottery Corporation incurs long-term liabilities as the result of game prizes that are paid out in the form of periodic payments. In order to meet those future obligations, the Corporation purchases annuities from insurance companies. This debt represents remaining periodic payments owed to Lotto, Lucky-4-Life, and Instant game winners. Annuity contracts and related liabilities are reported at their discounted present value in the Financial Statements of the Corporation. Since the inception of the lump sum payout option for prize winners in 1997, the trend among prize winners has been to choose the lump sum option instead of the annuity option. In turn, the Corporation’s long-term liabilities have been decreasing as annuity payments made to winners have decreased (thus decreasing the Corporation’s annuity investment purchases). This has contributed to a decrease of the long-term annuities outstanding from \$193,958,980 at June 30, 2008, to \$168,315,131 at June 30, 2009.

Connecticut Lottery Corporation employees are considered employees of the State of Connecticut per Section 12-802, subsection (e), of the General Statutes, and are covered under the State Employees Retirement System. The Corporation’s payroll is processed through a direct link with the State’s automated payroll system. That system produces reports on the amount of salaries and fringe benefit costs incurred during the previous biweekly period. An amount equal to the costs incurred for salaries and fringe benefits is wire transferred by the Corporation into a State of Connecticut Treasurer’s Account to cover those costs. The operating expenses for salaries and benefits were \$14,256,982 for the fiscal year ended June 30, 2009.

**Financial Operations:**

The Connecticut Lottery Corporation operates as an enterprise activity and is included in the State of Connecticut’s Comprehensive Annual Financial Report within that category. The

accrual basis of accounting is used in accordance with generally accepted accounting principles. The Corporation applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the Governmental Accounting Standards Board.

The following is a comparative summary of operations. This financial information was obtained from the Connecticut Lottery Corporation's audited financial statements for the fiscal years ended June 30, 2008 and 2009.

	<b>Fiscal Year Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Total sales	\$ 991,303,043	\$ 998,147,892
Prize expense	(604,712,211)	(608,217,698)
All other expenses	(98,659,814)	(101,589,713)
Excess of sales over expenses	287,931,018	288,340,481
Other and nonoperating revenues	682,644	1,734,700
Subtotal	288,613,662	290,075,181
Transfers to State of Connecticut	(5,206,480)	(4,992,404)
Income available	283,407,182	285,082,777
Transfers to General Fund	(283,000,000)	(283,000,000)
 <b>Change in Net Assets</b>	 <b>\$ 407,182</b>	 <b>\$ 2,082,777</b>

In accordance with Section 12-812 of the General Statutes, the President of the Connecticut Lottery Corporation transfers the excess balance of Lottery earnings to the General Fund on a weekly basis. These weekly transfers represent an estimate of lottery sales revenues less operating expenditures. Weekly transfers totaled \$283,000,000 for the fiscal year ended June 30, 2009, or 28.6 percent of total annual lottery sales for this fiscal year. For the fiscal year ended June 30, 2009, instant tickets made up approximately 61.5 percent of total sales by game.

As presented in its audited financial statements, the Corporation's Statement of Net Assets for June 30, 2008, and June 30, 2009, was as follows:

	<b><u>June 30, 2009</u></b>	<b><u>June 30, 2008</u></b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 23,419,537	\$ 37,035,370
Accounts receivable, net of allowance	16,328,149	12,305,072
Prepaid annuities for prizes	33,161,388	36,055,362
Accrued interest receivable	6,320,494	7,650,406
Ticket inventory, net of allowance	2,255,233	1,725,606
Prepaid expenses	148,107	151,274
Due from the Multi-State Lottery Association	201,995	-

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<b>Total Current Assets</b>	<u>81,834,903</u>	<u>94,923,090</u>
<b>Noncurrent Assets</b>		
Investments for prize payments at present value	168,315,131	193,958,980
Prize reserve held by Multi-State Lottery Association	4,847,248	4,840,454
Advances to high tier claim centers	150,000	150,000
Property, plant and equipment, net	<u>2,786,217</u>	<u>2,939,083</u>
<b>Total Noncurrent Assets</b>	<u>176,098,596</u>	<u>201,888,517</u>
<b>Total Assets</b>	<u>\$ 257,933,499</u>	<u>\$ 296,811,607</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Annuities payable	\$ 35,076,947	\$ 38,084,724
Prizes payable	29,002,909	34,282,333
Accrued interest payable	6,320,494	7,650,406
Accounts payable and accrued expenses	11,232,445	14,548,225
Due to Multi-State Lottery Association	-	1,047,771
Deferred revenue	<u>815,252</u>	<u>812,372</u>
<b>Total Current Liabilities</b>	<u>82,448,047</u>	<u>96,425,831</u>
<b>Long-Term Liabilities</b>		
Deferred rent liability	315,410	238,832
Deferred retiree salaries and benefits payable	259,765	-
Long-term annuities payable	<u>168,315,131</u>	<u>193,958,980</u>
<b>Total Long-Term Liabilities</b>	<u>168,890,306</u>	<u>194,197,812</u>
<b>Total Liabilities</b>	<u>251,338,353</u>	<u>290,623,643</u>
<b>Net Assets</b>		
Invested in capital assets	2,786,217	2,939,083
Restricted for unclaimed prizes	6,595,146	6,187,964
Unrestricted	<u>(2,786,217)</u>	<u>(2,939,083)</u>
<b>Total Net Assets</b>	<u>6,595,146</u>	<u>6,187,964</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 257,933,499</u>	<u>\$ 296,811,607</u>

The Connecticut Lottery Corporation's assets decreased from \$296,811,607 for the fiscal year ended June 30, 2008, to \$257,933,499 for the fiscal year ended June 30, 2009. The primary reason for this decrease is the continuing trend of prize winners selecting the lump sum payment option over the long-term annuity option. This has resulted in a reduction in investments for prize payments at present value and a corresponding decrease in long-term annuities payable.

## CONDITION OF RECORDS

### **Failure to Execute Contracts, Contract Affidavits and Certifications in a Timely Manner:**

*Criteria:*

- Section 4-252, subsection (c), of the General Statutes and Executive Orders No. 1 and 7c, require that a contractor doing business with a quasi-public agency provide a Gift and Campaign Contribution Certification at the time of contract execution and annually thereafter if such contract has a value of \$50,000 or more in a calendar or fiscal year. In addition, Section 4-252, subsection (b), of the General Statutes and Executive Orders No. 1 and 7c, require that the agency official who is authorized to execute said contract shall certify that the selection of the most qualified or highest ranked person, firm or corporation was not the result of collusion, the giving of a gift or the promise of a gift, compensation, fraud or inappropriate influence from any person. Further, Section 4a-81 of the General Statutes requires that a Consulting Agreement Affidavit accompany a State or quasi-public agency contract with a value of \$50,000 or more in a calendar or fiscal year.
- Sound business practices require that contracts be executed before services are provided to ensure that the parties are in agreement with the contract terms.

*Condition:*

- We performed a test of expenditures and a test of the Lottery's compliance with statutory requirements for obtaining agency and vendor affidavits and certifications. We found that the Lottery did not obtain the required certifications at the time specified by Statute in two instances. In the first instance, vendor certifications were obtained two and a half months after execution of the contract. In the second case, the agency certification was not signed until three and a half months after services began due to a delay in formalizing the contract as noted below.
- Our review of expenditures disclosed that the agreement specifying details of agreed-upon procedures to be provided by an audit firm was not signed until four months after the contract date and approximately three and a half months after services began.

*Effect:*

- The Corporation was not in compliance with affidavit and certification requirements.
- A delay in establishing the terms of a contract may lead to misunderstandings between the service provider and the Corporation.

*Cause:*

- In the first instance, the cause is unknown. In the second instance, a

delay in the execution of the contract contributed to the delay in providing the Lottery's certification.

- The Lottery did not establish the specific details of the contract in a timely manner.

*Recommendation:* The Lottery should take steps to ensure that certifications and affidavits are obtained at the time specified by Statute. The Lottery should implement improved control procedures to better ensure that contracts are properly drawn and executed prior to the commencement of services. (See Recommendation 1.)

*Agency Response:* "While the CLC agrees with the facts stated in the Report, for the reasons set forth below, the CLC disagrees with the recommendation.

**Vendor Certifications and Affidavits: Procedures.**

The CLC has established procedures for the preparation of certificates and affidavits in compliance with Connecticut General Statutes § 4-252(c) and Executive Order No. 1 and 7c. In addition, a periodic review by a third employee is conducted to ensure compliance for all transactions that meet the requisite thresholds established by statute and Executive Order. We believe that the irregularity in timing for agency and vendor certificates is significantly diminished in the future because, at present, the procedures and personnel are fully in place to ensure proper execution of these documents.

**Vendor Certification Obtained Two and A Half Months After Contract Execution:**

The CLC has had relationships with this particular vendor for a number of years. Due to a merger at the vendor, the requisite certification for this particular series of billboards was delayed. However, the certifications were diligently pursued by the CLC. The procedures now in place to obtain vendor certifications coupled with the rarity of such an ownership change, suggest that the risk of delayed affidavits is minimal in the future.

**Contract Execution: Procedure**

The CLC's policy is to execute contracts prior to the commencement of services, post-award. In-house counsel's role is to prepare the contracts, with the input of staff and the assistance of outside counsel. Due to the increasing complexity of CLC's operations and to improve the quality of its contracts, the CLC has significantly changed, within the last two years, its contracting documents as well as the resources and expertise devoted to this issue. Measures, personnel and procedures are now in place to ensure timely execution of contracts. In 2008, at the time of the finding at issue, such procedures were in their infancy. Accordingly, we believe that the likelihood of a delay in executing contracts is significantly diminished.

**Delayed Contract Execution:**

The contract in this particular situation was for agreed upon procedures by an audit firm. The need for the contracted services arose because of a system conversion in which CLC's backup site was relocated from Connecticut to Georgia. Essential contract terms, including procedures for the audit services and costs, were fixed by the date of the conversion and first drawing. However, the formal written agreement required legal review by both the CLC and the audit firm selected. The risk of disagreement on the contract's nonessential terms was low, and the CLC had full confidence that all documents would be completed within a reasonable timeframe. The CLC was unwilling to execute a written contract not properly vetted given the length of the proposed relationship. Accordingly, audit services were commenced prior to formal execution of the written agreement and the accompanying agency certification. While not ideal, this course of action was essential to avoiding a disruption in a profitable game and obtaining a well written, complete contract.

**Conclusion:**

While the recommendation in the report asserts that steps should be taken to ensure that certifications and affidavits are timely obtained, those procedures are presently in place. Furthermore, personnel and procedures are also in place to ensure that contracts are executed prior to the commencement of services. While the CLC agrees with the factual finding, we maintain that since the contracts at issue were executed close to two years ago, the remedial recommendations are moot. The recommended procedures, personnel and resources were in place at the writing of this letter and at the time of the audit. Hence, no additional remediation is required."

*Auditors' Concluding  
Comments:*

The merger noted above under "Vendor Certification Obtained Two and A Half Months After Contract Execution" occurred several months after the contract date. The affidavits and certifications should have been obtained at the time the contract was signed.

In addition, although the Lottery maintains that procedures are presently in place to prevent the findings noted above from occurring in the future, the more recent improvements in internal control have not been tested. The benefits of those enhanced procedures may be evident in future audits, but a conclusion on their effectiveness would be premature. Further, some improvements in internal control related to affidavits and certifications were in effect during the current audit but were not sufficient to prevent noncompliance.

## RECOMMENDATIONS

*Status of Prior Audit Recommendation:*

Our prior audit report of the fiscal year ended June 30, 2008, included no recommendations.

*Current Audit Recommendations:*

- 1. The Lottery should take steps to ensure that certifications and affidavits are obtained at the time specified by Statute. In addition, the Lottery should implement improved control procedures to better ensure that contracts are properly drawn and executed prior to the commencement of services.**

Comment:

Our review of Lottery contracts and affidavits disclosed that, in two instances, the Lottery failed to obtain or provide in a timely manner the certifications and affidavits required for contracts with a value of \$50,000 or more. In addition, the agreement specifying details of agreed-upon procedures to be provided by an audit firm was not signed until four months after the contract date and approximately three and a half months after services began.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Connecticut Lottery Corporation's activities for the fiscal year ended June 30, 2009. This audit was primarily limited to performing tests of the Corporation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, including but not limited to a determination of whether the Corporation has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grant agreements, and other financial resources, and to understanding and evaluating the effectiveness of the Corporation's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts, and grant agreements applicable to the Corporation are complied with. The financial statement audit of the Connecticut Lottery Corporation for the fiscal year indicated above was conducted by the Corporation's independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Connecticut Lottery Corporation complied in all material respects with the provisions of certain laws, regulations, contracts, and grant agreements and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of tests to be performed during the conduct of the audit.

### **Internal Control over Financial Operations and Compliance**

In planning and performing our audit, we considered the Corporation's internal control over its financial operations and its compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Corporation's financial operations and compliance with certain provisions of laws, regulations, contracts, and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Corporation's internal control over those control objectives. Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants, and other financial resources

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to properly initiate, authorize, record, process, or report financial data reliably consistent with management's direction, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that noncompliance with laws, regulations, contracts, and grant agreements that is more than

inconsequential will not be prevented or detected by the Corporation's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance which could result in significant unauthorized, illegal, irregular, or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Corporation's financial operations will not be prevented or detected by the Corporation's internal control.

Our consideration of the internal control over the Corporation's financial operations, and compliance with requirements would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Corporation's financial operations and compliance with requirements that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Connecticut Lottery Corporation complied with laws, regulations, contracts, and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular, or unsafe transactions or could have a direct and material effect on the results of the Corporation's financial operations for the fiscal year ended June 30, 2009, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants, and other financial resources

Our examination included reviewing all or a representative sample of the Corporation's activities in those areas and performing such other procedures as we considered necessary in the circumstances.

The results of our tests disclosed no material or significant instances of noncompliance. However, we noted certain matters which we reported to Corporation management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Connecticut Lottery Corporation's response to the findings identified in our audit is described in the accompanying "Condition of Records" section of this report. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly, and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal

determination of the Connecticut Lottery Corporation's compliance with the provisions of the laws, regulations, contracts, and grant agreements included within the scope of this audit.

**CONCLUSION**

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the officials and employees of the Connecticut Lottery Corporation during our examination.

Cynthia A. Ostroske  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts