

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
CONNECTICUT LOTTERY CORPORATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011*

AUDITORS OF PUBLIC ACCOUNTS  
JOHN C. GERAGOSIAN ♦ ROBERT M. WARD

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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ROBERT M. WARD

February 20, 2013

**AUDITORS' REPORT  
CONNECTICUT LOTTERY CORPORATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011**

We have examined the books, records, and accounts of the Connecticut Lottery Corporation (CLC), as provided in Section 2-90 and Section 1-122 of the General Statutes, for the fiscal years ended June 30, 2010 and 2011.

**SCOPE OF AUDIT:**

This audit was primarily limited to performing tests of the Connecticut Lottery Corporation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, including but not limited to a determination of whether the CLC 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 Connecticut Lottery 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. We did this in order to determine our auditing procedures for the purpose of evaluating CLC 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 CLC activities during the fiscal years in the five areas identified above and a review of other such areas as we considered necessary. The financial statement audits of the Connecticut Lottery Corporation, for the fiscal years ended June 30, 2010 and 2011, were conducted by the CLC 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 the statutes, it is a public instrumentality and political sub-division of the state. Also, pursuant to Chapter 12 of the General Statutes, the CLC is classified as a quasi-public agency subject to various statutory requirements. As a quasi-public agency, the CLC 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 CLC is to provide increased revenue to the state. As such, the CLC was set up to operate and manage the lottery in an "entrepreneurial and business-like manner" as a quasi-public agency. It is believed these agencies, working in an environment relatively free from budgetary and other constraints of 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 Pequot, Mohegan, or any other federally recognized Native American Tribe. Also, Section 12-818 of the General Statutes requires the CLC 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 09-3, enacted in the June 2009 Special Session, required that the CLC transfer \$1,900,000 to the program for the fiscal years ending June 30, 2010, and June 30, 2011. The required transfer reverts to \$1,500,000 for the fiscal year ended June 30, 2012, and each fiscal year thereafter.

The CLC provides two categories of game products: instant scratch tickets and computer-based games. During the audited period, the CLC 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's General Fund.
- **Play3 Night** is a 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 a game that was introduced in 1980. Players select four numbers from a range and choose from different play options.

- **Classic Lotto** is the original online 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 a 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** 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 a 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. This game terminated sales on March 8, 2012, subsequent to the audited period.
- **Mega Millions** is a multi-state lottery game that is played twice each week. Players select five numbers from a range of numbers and may also select a “Megaplier,” which can increase the potential payout. This game was introduced to Connecticut players in January 2010.

On March 11, 2012, subsequent to the audited period, the CLC and the other five New England state lotteries began selling Lucky for Life – New England’s Game. Drawings are held twice each week. The top prize is \$1,000 a day for life, with a minimum guaranteed prize payout of 20 years.

Effective August 2, 2009, the CLC amended Section 3(c)(2) of its 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 eight major divisions:

Finance:

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

General Counsel:

Responsible for providing legal advice.

Government Regulations and Operational Affairs:

Serves as the CLC liaison to the legislature.

Information Technology:

Provides information systems services, vendor compliance, and internet development.

Human Resources:

Responsible for payroll and human resources.

Marketing and Sales:

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

Security

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

Administration and Operations:

Responsible for lottery claims, purchasing services, and receipt, control, and disbursement of game products.

**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, 2011, the members of the board of directors were as follows:

**Ex Officio:**

Robert S. Dakers, designee of the Secretary of the Office of Policy and Management,  
Benjamin Barnes

Robert Morgan, designee of State Treasurer Denise L. Nappier

Governor Appointments:

James N. Farrell  
Frank A. Farricker, Chairperson  
Joseph J. Kaliko  
Margaret L. Morton  
Michael P. Thompson

Legislative Appointments:

Steven A. Bafundo  
Patrick M. Birney  
Gale A. Mattison, Vice-Chairperson  
Natasha M. Pierre  
Kenneth J. Saccente  
Martin E. Stauffer

Wendy B. Kingsbury, Carolyn C. Long, John S. Paul, and Patricia Racz also served on the board during the audited period.

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. In May 2011, Frank A. Farricker was appointed chairperson and continues to serve in that capacity.

On February 29, 2008, Anne M. Noble was appointed 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 CLC for each of the fiscal years ended June 30, 2010 and 2011. Those reports each 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 biennially. The 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 CLC for the fiscal years ended June 30, 2010 and 2011. 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 2,700 licensed retailers throughout the state to offer lottery games for sale to the public. Only retailers who satisfy CLC established criteria are recommended to the State of Connecticut's Division of Special Revenue for licensure. 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 into fiduciary type bank accounts. Once a week, those deposits (less canceled tickets, prize payouts, and retailer commissions) are transferred into the CLC Operating Account held by a major bank. The Operating Account, along with other CLC bank accounts (Claims, Advance, Annuities, and Accounts Payable), is combined into a concentrator account for overnight investment.

Public Act 10-154, effective June 7, 2010, and codified in Section 12-806 subsection (b)(13) and Section 12-806b of the General Statutes, requires the CLC to pay the Office of Policy and Management (OPM) for costs incurred by the Division of Special Revenue for regulatory oversight of the lottery. Accordingly, the CLC made four quarterly payments to OPM totaling \$2,873,242 in the fiscal year ended June 30, 2011.

### **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 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 the Short Term Investment Fund (STIF) that provides a safe return on investment. Deposits with the State Treasurer's STIF totaled \$13,079,313 and \$15,582,342 as of June 30, 2010, and June 30, 2011, respectively.

The Connecticut Lottery Corporation transfers the excess of sales revenue over the cost of game prizes, retailer commissions, and operational and administrative costs to the General Fund on a weekly basis. Transfers to the General Fund from operations totaled \$285,500,000 in the fiscal year ended June 30, 2010, and \$289,300,000 in the fiscal year ended June 30, 2011.

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 CLC 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 CLC. 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 CLC long-term liabilities have been decreasing as annuity payments made to winners have decreased, thus decreasing the CLC annuity investment purchases. This has contributed to a decrease of the long-term annuities outstanding from \$168,315,131 at June 30, 2009, to \$149,322,912 at June 30, 2010, and to \$134,809,542 at June 30, 2011.

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 CLC 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 CLC into a State 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, \$14,074,801 for the fiscal year ended June 30, 2010, and \$15,355,003 for the fiscal year ended June 30, 2011.

**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 CLC 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, 2009, 2010, and 2011.

	Fiscal Year Ended June 30,		
	2011	2010	2009
Total Sales	\$ 1,016,614,013	\$ 996,846,808	\$ 991,303,043
Prize Expense	(620,133,591)	(608,754,786)	(604,712,211)
All Other Expenses	(102,425,990)	(97,359,397)	(98,659,814)
Excess of Sales Over Expenses	294,054,432	290,732,625	287,931,018
Other and Nonoperating			
Revenues	115,941	274,777	682,644
Subtotal	294,170,373	291,007,402	288,613,662
Transfers to State of			
Connecticut	(4,773,242)	(4,685,397)	(5,206,480)
Income Available	289,397,131	286,322,005	283,407,182
Transfers to General Fund	(289,300,000)	(285,500,000)	(283,000,000)
Change in Net Assets	<u>\$ 97,131</u>	<u>\$ 822,005</u>	<u>\$ 407,182</u>

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, and are summarized as follows:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Total Weekly Transfers	\$ 289,300,000	\$ 285,500,000	\$ 283,000,000

Percent of Total Annual Lottery Sales	28.5 percent	28.6 percent	28.6 percent
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Instant tickets made up approximately 61.5 percent of total sales by game for the fiscal year ended June 30, 2009, 59.5 percent for the fiscal year ended June 30, 2010, and 60.1 percent for the fiscal year ended June 30, 2011.

As presented in its audited financial statements, the CLC Statement of Net Assets for the fiscal years ended June 30, 2009, 2010, and 2011, follow:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 16,615,694	\$ 18,269,655	\$ 23,419,537
Accounts Receivable, Net of Allowance	23,639,829	22,563,562	16,328,149
Prepaid Annuities for Prizes	26,172,068	30,246,244	33,161,388
Accrued Interest Receivable	4,129,121	5,172,949	6,320,494
Ticket Inventory, Net of Allowance	1,867,586	2,532,566	2,255,233
Due from the Multi-State Lottery Association	261,356	-	201,995
Prepaid Expenses	153,829	125,167	148,107
<b>Total Current Assets</b>	<b>72,839,483</b>	<b>78,910,143</b>	<b>81,834,903</b>
<b>Noncurrent Assets</b>			
Investments for Prize Payments at Present Value	134,809,542	149,322,912	168,315,131
Prize Reserve Held by Multi-State Lottery Association	4,767,674	4,741,721	4,847,248
Property, Plant and Equipment, Net	2,530,973	2,666,910	2,786,217
Advances to High Tier Claim Centers	200,000	200,000	150,000
<b>Total Noncurrent Assets</b>	<b>142,308,189</b>	<b>156,931,543</b>	<b>176,098,596</b>
<b>Total Assets</b>	<b>\$ 215,147,672</b>	<b>\$ 235,841,686</b>	<b>\$ 257,933,499</b>

**LIABILITIES AND**

**NET ASSETS**

**Current Liabilities**

Annuities Payable	\$ 26,888,185	\$ 31,190,204	\$ 35,076,947
Prizes Payable	33,479,386	26,856,278	29,002,909
Accrued Interest Payable	4,129,121	5,172,949	6,320,494
Accounts Payable and			
Accrued Expenses	6,817,533	14,015,106	11,232,445
Due to Multi-State			
Lottery Association	-	643,890	-
Deferred Revenue	801,947	592,016	815,252
<b>Total Current Liabilities</b>	<b>72,116,172</b>	<b>78,470,443</b>	<b>82,448,047</b>

**Long-Term Liabilities**

Deferred Rent Liability	468,566	391,987	315,410
Deferred Retiree Salaries and			
Benefits Payable	239,110	239,193	259,765
Long-term Annuities Payable	134,809,542	149,322,912	168,315,131
<b>Total Long-Term Liabilities</b>	<b>135,517,218</b>	<b>149,954,092</b>	<b>168,890,306</b>
<b>Total Liabilities</b>	<b>207,633,390</b>	<b>228,424,535</b>	<b>251,338,353</b>

**Net Assets**

Invested in Capital Assets	2,530,973	2,666,910	2,786,217
Restricted for Unclaimed Prizes	7,514,282	7,417,151	6,595,146
Unrestricted	(2,530,973)	(2,666,910)	(2,786,217)
<b>Total Net Assets</b>	<b>7,514,282</b>	<b>7,417,151</b>	<b>6,595,146</b>

**Total Liabilities and**

<b>Net Assets</b>	<b>\$ 215,147,672</b>	<b>\$ 235,841,686</b>	<b>\$ 257,933,499</b>
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The Connecticut Lottery Corporation's assets decreased from \$257,933,499 for the fiscal year ended June 30, 2009, to \$235,841,686 for the fiscal year ended June 30, 2010, to \$215,147,672 for the fiscal year ended June 30, 2011. The primary reason for these decreases 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.

**Other Matter:**

In the course of our inquiries with CLC management, we were informed that a separation agreement between the CLC and its former chief financial officer was entered into in November 2011. One of the stipulations included in the agreement was a payment of \$50,000 to the former chief financial officer. This payment was processed shortly thereafter. As an enterprise fund of the State of Connecticut, all operating income of the Connecticut Lottery Corporation is transferred to the state. As such, the \$50,000 payment results in a loss of revenue to the state.

## CONDITION OF RECORDS

### **Compliance with Internal Control Procedures for Personnel Actions:**

- Background:* In October 2008, the State Comptroller's Core-CT reviewed agencies that, due to agency size, do not provide an adequate segregation of duties between certain human resources and payroll functions. As the Connecticut Lottery Corporation has some individuals who perform both human resources and payroll functions, Core-CT requested supporting documentation from the CLC to confirm that alternative procedures have been developed to ensure that inappropriate or fraudulent transactions will be prevented.
- Criteria:* In response to the request from Core-CT, the CLC developed the Internal Control Procedures for Personnel Actions, a set of procedures to be performed to provide reasonable assurance that inappropriate or fraudulent transactions would be prevented.
- One of the procedures included in the Internal Control Procedures for Personnel Actions states, "On a random basis and for no less than two times per year, the Principal Cost Analyst will examine the payroll register and sample this information to confirm that payroll charges accurately reflect the current list of CLC employees and their hourly rates as reflected in his file."
- Condition:* We reviewed and discussed this procedure with the Principal Cost Analyst and noted that the examination is performed only one time per year.
- Effect:* By not completing the examination two times per year, the CLC is not in compliance with the Internal Control Procedures for Personnel Actions and there is an increased risk that inappropriate or fraudulent payroll transactions could occur.
- Cause:* The cause is unknown.
- Recommendation:* The Connecticut Lottery Corporation should perform the random audits of the biweekly payroll two times per year to comply with the Internal Control Procedures for Personnel Actions.
- Agency Response:* "The CLC developed the Internal Control Procedures for Personnel Actions to confirm that payroll charges are accurate and reflect the current complement of employees for the CLC and provide a segregation of duties between the HR and payroll function.

## *Auditors of Public Accounts*

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On a biweekly basis, the Human Resources department provides the Finance Department (Principal Cost Analyst) with total gross salary expenditures from the payroll register. Human Resources also provides any staff changes in either the number of positions or changes in job classification. Independently, the Principal Cost Analyst obtains records directly from Core-CT to compare budgeted expenditures to actual expenditures and then reviews and audits the information for reasonableness. The Principal Cost Analyst performs this function on a biweekly basis in accordance with each payroll cycle, but has not been consistently formally documented. CLC believes that the action of reviewing and auditing is performed more frequently than two times per year, thereby reducing any potential risk of inappropriate or fraudulent transactions. Going forward, CLC will ensure that the review is performed and documented.”

## **RECOMMENDATIONS**

Our prior audit report contained one recommendation, which follows:

*Status of Prior Audit Recommendation:*

- 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. Testing in the current audit noted that these conditions did not recur, and the recommendation is not being repeated.

*Current Audit Recommendation:*

- 1. The Connecticut Lottery Corporation should perform the random audits of the biweekly payroll two times per year to comply with its Internal Control Procedures for Personnel Actions.**

Comment:

Because of its relatively small size, the CLC cannot always maintain an adequate segregation of duties between certain human resources and payroll functions. To address these concerns, the CLC developed a set of procedures to be performed to provide reasonable assurance that inappropriate or fraudulent transactions would be prevented. One of these procedures included a random examination of the payroll register to confirm that payroll charges accurately reflect the current list of CLC employees and their hourly rates. This examination was to be performed two times per year. We noted that it was performed only one time per year during the audited period.

## **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 years ended June 30, 2010, and June 30, 2011. 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 years indicated above were 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 *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal, or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility 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 and corrected on a timely basis.

Our consideration of internal control over financial operations and compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the corporation's financial operations or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in the accompanying Condition of Records and Recommendations sections of this report, to be a significant deficiency in internal control over compliance: Recommendation 1 – The corporation should perform the random audits of the biweekly payroll two times per year to comply with the Internal Control Procedures for Personnel Actions.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

***Compliance and Other Matters:***

As part of obtaining reasonable assurance about whether the 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 or compliance for the fiscal years ended June 30, 2010, and June 30, 2011, 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's management in the accompanying Condition of Records and Recommendations sections of this report.

The Connecticut Lottery Corporation's response to the finding 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.

## *Auditors of Public Accounts*

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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 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.



Timothy M. LePore  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts