AUDITORS' REPORT
CONNECTICUT LOTTERY CORPORATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN  ROBERT M. WARD
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AUDITORS’ REPORT
CONNECTICUT LOTTERY CORPORATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013

We have audited certain operations of the Connecticut Lottery Corporation (CLC) in fulfillment of our duties under Sections 1-122, 2-90, and 12-800 through 12-834 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2012 and 2013.

The objectives of our audit were to:

1. Evaluate the corporation’s internal controls over significant management and financial functions;

2. Evaluate the corporation’s compliance with policies and procedures internal to the corporation or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the Connecticut Lottery 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, grants, and other financial assistance, as applicable; and

3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the corporation, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.
We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the corporation’s management and was not subjected to the procedures applied in our audit of the corporation. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors’ Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Lottery Corporation.

SCOPES 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 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 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, 2012 and 2013, were conducted by CLC independent public accountants.
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 related to those agencies. 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 state lottery from the former Division of Special Revenue. The central purpose of CLC is to provide increased revenue to the state. As such, CLC was set up to operate and manage the lottery in an “entrepreneurial and business-like manner” as a quasi-public agency. The goal of the enabling legislation was to establish an environment relatively free from the budgetary and other constraints of traditional state agencies, which could 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 CLC to annually transfer $1,900,000 to the chronic gamblers treatment rehabilitation account.

CLC provides two categories of game products: instant scratch tickets and computer-based on-line games. During the audited period, 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 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.
• **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. This game terminated sales on March 8, 2012.

• **Super Draw** is an online game that was introduced in March 2011. Drawings are held at various times throughout the year. Each ticket is sold with a unique six-digit number. The winning numbers consist of the unique six-digit numbers randomly selected at each drawing.

• **Lucky for Life – New England’s Game** is conducted by CLC and the other five New England state lotteries. Drawings are held twice each week. The top prize is $1,000 a day for life, with a minimum prize payout of 20 years. This game was introduced on March 11, 2012.

• **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. Several minor revisions were made to this game in October 2013.

On May 4, 2014, subsequent to the audited period, CLC began selling 5 Card Cash tickets. Each ticket costs two dollars and has a chance to win up to two times. The player can win up to $5,555 instantly and then the same ticket can win up to $255,555 in the daily drawing.

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 seven major divisions:
Auditors of Public Accounts

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

Legal: Responsible for providing legal advice.

Government Affairs: Serves as CLC’s liaison to the legislature.

Operations and Administration: Responsible for lottery claims, purchasing services, and receipt, control, and disbursement of game products. 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 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 on 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, 2013, 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’s Appointments:

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

Legislative Appointments:

Steven A. Bafundo
Patrick Birney
Gale A. Mattison, Vice-Chairperson
Natasha M. Pierre

Joseph J. Kaliko, Kenneth J. Saccente, and Martin E. Stauffer also served on the board during the audited period. There were three vacancies on the board as of June 30, 2013.

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 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 CLC for each of the fiscal years ended June 30, 2012 and 2013. 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. These 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 CLC for the fiscal years ended June 30, 2012 and 2013. 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 to the public. Only retailers who satisfy CLC’s established criteria are recommended for licensure to the state Department of Consumer Protection. The Division of Special Revenue retained regulatory authority for such matters following the creation of the Connecticut Lottery Corporation. With the passage of Public Act 11-51, effective July 1, 2011, that authority was transferred to the Department of Consumer Protection.
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 Account, Advance Account, Annuities Account, and Accounts Payable), is combined into a concentrator account for overnight investment. The concentrator is the main account that feeds all other accounts. Most of CLC’s cash transactions flow in and out of this account.

Section 12-806 subsection (b)(13) and Section 12-806b of the General Statutes require CLC to pay the Office of Policy and Management (OPM) for costs incurred by the Department of Consumer Protection for regulatory oversight of the lottery. Accordingly, CLC made four quarterly payments to OPM totaling $2,900,229 in the fiscal year ended June 30, 2012 and $2,942,050 in the fiscal year ended June 30, 2013.

**State Accounts**

Section 3-27a of the General Statutes allows the Connecticut Lottery Corporation to deposit excess funds with the State 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 $22,102,734 and $6,421,102 as of June 30, 2012, and June 30, 2013, respectively. The average annual STIF rate of return was .16 percent for both of the fiscal years ended June 30, 2012 and June 30, 2013.

On a weekly basis, the Connecticut Lottery Corporation transfers to the General Fund 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 $310,000,000 in the fiscal year ended June 30, 2012, and $312,100,000 in the fiscal year ended June 30, 2013.

The Connecticut Lottery Corporation incurs long-term liabilities as the result of game prizes that are paid out in the form of periodic payments. To meet those future obligations, CLC purchases annuities from insurance companies. This debt represents remaining periodic payments owed to Lotto, Lucky-for-Life, and instant game winners. Annuity contracts and related liabilities are reported at their discounted present value in CLC’s financial statements. Outstanding long-term annuities were $134,809,542 at June 30, 2011, $115,991,058 at June 30, 2012, and $128,583,612 at June 30, 2013. No “for life” annuities were purchased in the fiscal year ended June 30, 2012, while 13 were purchased in the fiscal year ended June 30, 2013.

The 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. 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 CLC into a State Treasurer’s account to cover those costs. The operating expenses for salaries and benefits were $15,355,003 for the fiscal year ended June 30, 2011, $15,070,877 for the fiscal year ended June 30, 2012, and $15,749,208 for the fiscal year ended June 30, 2013.

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 (GAAP). 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, 2011, 2012, and 2013.

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30,</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>$1,122,694,950</td>
<td>$1,081,740,066</td>
<td>$1,016,614,013</td>
</tr>
<tr>
<td>Prize Expense</td>
<td>(699,062,914)</td>
<td>(659,897,816)</td>
<td>(620,133,591)</td>
</tr>
<tr>
<td>All Other Expenses</td>
<td>(110,621,592)</td>
<td>(107,106,542)</td>
<td>(102,425,990)</td>
</tr>
<tr>
<td>Excess of Sales Over Expenses</td>
<td>313,010,444</td>
<td>314,735,708</td>
<td>294,054,432</td>
</tr>
<tr>
<td>Other and Nonoperating Revenues</td>
<td>126,123</td>
<td>111,423</td>
<td>115,941</td>
</tr>
<tr>
<td>Subtotal</td>
<td>313,136,567</td>
<td>314,847,131</td>
<td>294,170,373</td>
</tr>
<tr>
<td>Transfers to State of Connecticut</td>
<td>(4,842,050)</td>
<td>(4,800,229)</td>
<td>(4,773,242)</td>
</tr>
<tr>
<td>Income Available</td>
<td>308,294,517</td>
<td>310,046,902</td>
<td>289,397,131</td>
</tr>
<tr>
<td>Transfers to General Fund</td>
<td>(312,100,000)</td>
<td>(310,000,000)</td>
<td>(289,300,000)</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td><strong>$ (3,805,483)</strong></td>
<td><strong>$ 46,902</strong></td>
<td><strong>$ 97,131</strong></td>
</tr>
</tbody>
</table>

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 transfers represent an estimate of lottery sales revenues less operating expenditures, and are summarized as follows:
Auditors of Public Accounts

Fiscal Year Ended June 30,

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Weekly Transfers</td>
<td>$312,100,000</td>
<td>$310,000,000</td>
<td>$289,300,000</td>
</tr>
</tbody>
</table>

Percent of Total Annual Lottery Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Total Annual Lottery Sales</td>
<td>27.8 percent</td>
<td>28.7 percent</td>
<td>28.5 percent</td>
</tr>
</tbody>
</table>

Instant tickets made up approximately 60.1 percent of total sales by game for the fiscal year ended June 30, 2011, 60.4 percent for the fiscal year ended June 30, 2012, and 59.4 percent for the fiscal year ended June 30, 2013.

As presented in its audited financial statements, the CLC Statement of Net Assets for June 30, 2011, 2012, and 2013, follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$11,163,687</td>
<td>$31,128,405</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>34,497,710</td>
<td>34,248,815</td>
</tr>
<tr>
<td>Accounts Receivable, Net of Allowance</td>
<td>18,448,868</td>
<td>21,516,664</td>
</tr>
<tr>
<td>Prepaid Annuities for Prizes</td>
<td>2,808,573</td>
<td>3,403,384</td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>2,082,854</td>
<td>1,962,929</td>
</tr>
<tr>
<td>Ticket Inventory, Net of Allowance</td>
<td>200,377</td>
<td>142,302</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>$128,583,612</td>
<td>$115,991,058</td>
</tr>
<tr>
<td>Prize Reserve Held by Multi-State Lottery Association</td>
<td>5,063,840</td>
<td>5,039,411</td>
</tr>
<tr>
<td>Property, Plant and Equipment, Net Advances to High Tier Claim Centers</td>
<td>1,684,712</td>
<td>2,111,186</td>
</tr>
<tr>
<td>Total Noncurrent Assets</td>
<td>135,532,164</td>
<td>123,341,655</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$204,734,233</td>
<td>$215,744,154</td>
</tr>
</tbody>
</table>

Connecticut Lottery Corporation 2012 and 2013
LIABILITIES AND
NET ASSETS

Current Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annuities Payable</td>
<td>$19,140,744</td>
<td>$22,204,473</td>
<td>$26,888,185</td>
</tr>
<tr>
<td>Prizes Payable</td>
<td>33,373,826</td>
<td>38,517,211</td>
<td>33,479,386</td>
</tr>
<tr>
<td>Accrued Interest Payable</td>
<td>2,808,573</td>
<td>3,403,384</td>
<td>4,129,121</td>
</tr>
<tr>
<td>Accounts Payable and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Expenses and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to Multi-State</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lottery Association</td>
<td>1,416,788</td>
<td>1,266,907</td>
<td>-</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>721,539</td>
<td>653,338</td>
<td>801,947</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>71,688,504</td>
<td>91,489,344</td>
<td>72,116,172</td>
</tr>
</tbody>
</table>

Long-Term Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Rent Liability</td>
<td>621,721</td>
<td>545,143</td>
<td>468,566</td>
</tr>
<tr>
<td>Long-term Salaries and Benefits Payable</td>
<td>84,695</td>
<td>157,425</td>
<td>239,110</td>
</tr>
<tr>
<td>Long-term Annuities Payable</td>
<td>128,583,612</td>
<td>115,991,058</td>
<td>134,809,542</td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>129,290,028</td>
<td>116,693,626</td>
<td>135,517,218</td>
</tr>
</tbody>
</table>

Total Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Liabilities</td>
<td>200,978,532</td>
<td>208,182,970</td>
<td>207,633,390</td>
</tr>
</tbody>
</table>

Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in Capital Assets</td>
<td>1,684,712</td>
<td>2,111,186</td>
<td>2,530,973</td>
</tr>
<tr>
<td>Restricted</td>
<td>2,070,989</td>
<td>5,449,998</td>
<td>4,983,309</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>3,755,701</td>
<td>7,561,184</td>
<td>7,514,282</td>
</tr>
</tbody>
</table>

Total Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Liabilities and Net Assets</td>
<td>$204,734,233</td>
<td>$215,744,154</td>
<td>$215,147,672</td>
</tr>
</tbody>
</table>

The Connecticut Lottery Corporation’s assets increased from $215,147,672 for the fiscal year ended June 30, 2011, to $215,744,154 for the fiscal year ended June 30, 2012, and decreased to $204,734,233 for the fiscal year ended June 30, 2013. The primary reason for the small increase in the fiscal year ended June 30, 2012, was an increase in current assets of $19,563,016 and a decrease in noncurrent assets of $18,966,534. The decrease in the fiscal year ended June 30, 2013, was due primarily to the purchase of a number of annuity contracts for prize winners.

Other Matter

In the course of our audit, we noted that an agreement between CLC and its former Director of Human Resources was entered into in December 2013. One of the stipulations in the agreement was a payment of $14,000 to the former employee. 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 $14,000 payment results in a loss of revenue to the state.
STATE AUDITORS’ FINDINGS AND RECOMMENDATIONS

Occupational License Applications to the Department of Consumer Protection

Criteria: Section 12-802a of the Connecticut General Statutes states, “No person shall be employed by the Connecticut Lottery Corporation until such person has obtained an occupational license issued by the Department of Consumer Protection (DCP) in accordance with regulations adopted under section 12-568a.”

The Department of Consumer Protection has adopted a policy in which an employee of CLC who has not yet been issued an occupational license may work under a temporary license until DCP has issued the employee’s license to CLC.

Condition: We tested CLC procedures for 15 employees who were hired during the audited period for compliance with these requirements. We noted one instance in which CLC did not initiate the license application to the Department of Consumer Protection until the employee’s hire date.

It should be noted that Section 12-802a of the Connecticut General Statutes requires each employee to obtain an occupational license from the Department of Consumer Protection prior to working for CLC. CLC may want to seek a legislative change to this statute requiring each employee to apply for the license prior to employment.

Effect: CLC did not apply for an occupational license in a timely manner.

Cause: The cause is unknown.

Recommendation: The Connecticut Lottery Corporation should initiate the occupational license process for new employees in a more timely manner. (See Recommendation 1.)

Agency Response: “The CLC typically requires employees to initiate the occupational license process prior to the employee’s hire date. In the single instance noted above, the employee commenced the occupational license process on the same day the employee began work (hire date). This employee relocated to Connecticut from out of state and was not residing in Connecticut prior to or during his recruitment. It is and will continue to be the practice of the CLC to initiate the occupational license process prior to the hire date.”

Auditor’s Concluding Comment: In all instances, the Connecticut Lottery Corporation should initiate the occupational license process prior to the employee’s hire date.
Filing of the List of Prospective Vendors with the State Elections Enforcement Commission

Criteria: Section 9-612 subsection (h)(1) of the General Statutes requires all state and quasi-public agencies to prepare a list of the names of the state contractors and prospective state contractors with which the agency is a party to a contract, and any state contract solicitations or prequalification certificates issued by the agency. The list must be forwarded to the State Elections Enforcement Commission on at least a monthly basis.

Condition: We reviewed purchasing procedures at CLC during the audited period. We noted that the list of prospective vendors was not prepared for six individual months in the fiscal year ended June 30, 2012, and for two individual months in the fiscal year ended June 30, 2013.

Effect: The Connecticut Lottery Corporation was not in compliance with this requirement.

Cause: This appears to have been an oversight by the CLC Purchasing Department.

Recommendation: The Connecticut Lottery Corporation should file a list of prospective vendors with the State Elections Enforcement Commission on a monthly basis to comply with Section 9-612 subsection (h)(1) of the General Statutes. (See Recommendation 2.)

Agency Response: “The CLC has taken corrective action to ensure that information is submitted consistently on a monthly basis.”
RECOMMENDATIONS

Our prior audit report contained one recommendation, which follows:

Status of Prior Audit Recommendation:

• The CLC should perform the random audits of the biweekly payroll two times per year to comply with the Internal Control Procedures for Personnel Actions. We tested for compliance with these procedures in the current audit and noted that the CLC is in compliance. The finding is not being repeated.

Current Audit Recommendations:

1. The Connecticut Lottery Corporation should initiate the occupational license process for new employees in a more timely manner.

Comment:

Our testing noted an instance in which the corporation did not initiate the license application to the Department of Consumer Protection until the hire date for an employee.

2. The Connecticut Lottery Corporation should file a list of prospective vendors with the State Elections Enforcement Commission on a monthly basis to comply with Section 9-612 subsection (h)(1) of the General Statutes.

Comment:

We noted that the required filing was not prepared for six individual months in the fiscal year ended June 30, 2012, and for two individual months in the fiscal year ended June 30, 2013.
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