



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

April 9, 2003

Contact: Andy Nielsen
515/281-5515

The Office of Auditor of State today released an audit report on the Lottery Division, Iowa Department of Revenue and Finance for the six months ended December 31, 2002. The Lottery Division oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money available for transfer to the State General Fund. Total revenue for the six months ended December 31, 2002 decreased .2% from the same period one year ago.

Comparative operating data is as follows:

	Six Months Ended Dec 31, 2002	Six Months Ended Dec 31, 2001	% Increase (Decrease)
Revenues:			
Instant ticket	\$ 38,045,978	37,138,193	2.4%
Powerball	31,090,096	34,187,189	(9.1)
Pull-tab	13,352,753	12,542,244	6.5
Pick 3 Game	2,709,572	2,194,157	23.5
\$100,000 Cash Game	2,083,535	2,086,321	(0.1)
Freeplay Replay	159,122	185,743	(14.3)
Hot Lotto Game	2,627,652	-	100.0
Rolldown	-	771,510	(100.0)
Other	28,523	1,207,223	(97.6)
Total revenue	90,097,231	90,312,580	(.2)
Prize expense	52,354,296	51,814,354	1.0
Other expense	18,472,512	18,874,780	(2.1)
Transfers to other funds	20,074,509	20,110,102	(.2)

An analysis of prizes awarded for the six months ended December 31, 2002 is as follows:

Instant ticket prizes expense	=	63% of Instant ticket sales
Powerball prizes expense	=	50% of Powerball sales
Pull-tab prizes expense	=	65% of Pull-tab sales
Pick 3 prizes expense	=	62% of Pick 3 sales
\$100,000 Cash Game prizes expense	=	50% of \$100,000 Cash Game sales
Freeplay Replay prizes expense	=	55% of Freeplay Replay sales
Hot Lotto prizes expense	=	62% of Hot Lotto sales

The Lottery Division spent \$2,811,654 on advertising, publicity and promotional prizes for the six months ended December 31, 2002, representing 3.1% of revenue. Iowa laws allow the Division to spend up to 4% of revenue for the marketing of lottery games.

A copy of the audit report is available for review in the office of the Auditor of State and the Lottery Division of the Iowa Department of Revenue and Finance.

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**LOTTERY DIVISION
IOWA DEPARTMENT OF REVENUE AND FINANCE**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

DECEMBER 31, 2002

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**Lottery Division
Iowa Department of Revenue and Finance**

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Cynthia P. Eisenhauer
Dennis C. Prouty

Governor
Director, Iowa Department of Management
Director, Legislative Fiscal Bureau

Board

Timothy Clausen
Michael McCoy
Mary Junge
William C. Brosnahan
Elaine Baxter

Chairperson
Vice Chairperson
Member
Member
Member

Department of Revenue and Finance

Donald Cooper
Michael Ralston

Acting Director
Director, appointed February 17, 2003

Lottery Division

Dr. Edward Stanek
Steven King

Commissioner
Vice Pres. of Finance, Chief Financial Officer

Lottery Division
Iowa Department of Revenue and Finance



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Independent Auditor's Report

To the Board Members of the
Lottery Division:

We have audited the accompanying statement of revenues, expenses and changes in net assets of the Lottery Division of the Iowa Department of Revenue and Finance for the six months ended December 31, 2002. This financial statement is the responsibility of the Division's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the statement of revenues, expenses and changes in net assets of the Lottery Division of the Iowa Department of Revenue and Finance is intended to present the changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the Lottery Division. It does not purport to, and does not, present fairly the financial position of the State of Iowa as of December 31, 2002, and the changes in its financial position and its cash flows for the six months then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the statement of revenues, expenses and changes in net assets referred to above presents fairly, in all material respects, the changes in financial position of the Lottery Division of the Iowa Department of Revenue and Finance for the six months ended December 31, 2002 in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2003 on our consideration of the Lottery Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the statement of revenues, expenses and changes in net assets. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the statement of revenues, expenses and changes in net assets for the six months ended December 31, 2001 (which is not presented herein) and expressed an unqualified opinion on that financial statement. The supplemental information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the statement of revenues, expenses and changes in net assets. Such information has been subjected to the auditing procedures applied in our audit of the statement of revenues, expenses and changes in net assets and, in our opinion, is fairly stated in all material respects in relation to the statement of revenues, expenses and changes in net assets.

March 7, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

Lottery Division
Iowa Department of Revenue and Finance

Financial Statement

Exhibit A

Lottery Division
Iowa Department of Revenue and Finance

Statement of Revenues, Expenses and Changes in Net Assets

Six months ended December 31, 2002

Operating revenues:	
Instant ticket sales	\$ 38,045,978
Powerball sales	31,090,096
Pull-tab sales	13,352,753
Pick 3 sales	2,709,572
\$100,000 Cash Game sales	2,083,535
Freeplay Replay sales	159,122
Hot Lotto sales	2,627,652
Application fees	11,125
Other	<u>17,398</u>
Total operating revenues	<u>90,097,231</u>
Operating expenses:	
Prizes:	
Instant ticket	23,784,248
Powerball	15,390,843
Pull-tab	8,724,799
Pick 3	1,686,775
\$100,000 Cash Game	1,031,372
Freeplay Replay	87,680
Hot Lotto	1,444,913
Promotional	<u>203,666</u>
Total prizes	52,354,296
Retailer compensation	5,967,049
Advertising/publicity	2,607,988
Vendor compensation/network expense	3,053,863
Instant and Pull-tab rental and inventory expense	2,334,755
Other operating expenses	<u>4,508,857</u>
Total operating expenses	<u>70,826,808</u>
Operating income	19,270,423
Non-operating revenue:	
Interest income	<u>399,270</u>
Income before operating transfers	19,669,693
Transfers to other funds:	
State General Fund	19,803,092
Iowa Department of Public Health – Gambling Treatment Fund	<u>271,417</u>
Change in net assets	(404,816)
Net assets beginning of period	<u>2,313,964</u>
Net assets end of period	<u>\$ 1,909,148</u>

See notes to financial statement.

Lottery Division
Iowa Department of Revenue and Finance

Notes to Financial Statement

December 31, 2002

(1) Summary of Significant Accounting Policies

The Lottery Division of the Iowa Department of Revenue and Finance has the responsibility to produce the maximum amount of net revenues for the state in a manner which maintains the dignity of the state and the general welfare of the people. The Lottery Division oversees the marketing of lottery games and performs the administrative procedures necessary to ensure the most efficient and effective operation possible.

The head of the Lottery Division is a Commissioner appointed by the Governor. The Governor also appoints the Iowa Lottery Board, consisting of five members.

The Board and Commissioner have joint responsibility for entering into major contracts, procuring the printing of instant and pull tab tickets and for the purchase or lease of equipment or services essential to the operation of a lottery game.

The Board must promulgate rules regarding the following:

- (a) Types, prize structure and price of lottery games.
- (b) Retailer licensing requirements, fees, incentives, locations and compensation.
- (c) Method of selecting winning tickets or shares, manner of prize payment, method of ticket validation, preliminary drawings and jackpot events, ticket printing and purchasing.

The organizational structure of the Lottery Division consists of five sections: Security, Finance, Operations, Marketing, and Sales.

The statement of revenues, expenses and changes in net assets of the Lottery Division has been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Division's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Lottery Division has included all funds. The Lottery Division has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Lottery Division are such that exclusion would cause the Lottery Division's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Lottery Division to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Lottery Division. The Lottery Division has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The Lottery Division is reported for accounting purposes as an Enterprise Fund. The operations of the fund are accounted for with self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities, whether current or non-current, associated with their activity are included on their statements of net assets. Their reported fund equity is reported as net assets. Enterprise Fund operating statements present increases (revenues) and decreases (expenses) in net assets.

In reporting the financial activity of its Enterprise Fund, the Lottery Division applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Enterprise Fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

E. Budgetary Control

Budgetary control is exercised over the Lottery Division through the annual budgetary process prescribed in Chapter 8 of the Iowa Code.

F. Revenue Recognition

Instant, pull-tab and on-line tickets are sold to the public through licensed retail sales agents. Instant ticket sales are recognized when the retailer settles a pack of tickets. Revenues for pull-tab games are recognized upon the sale of tickets to the retail sales agents. Revenues for on-line games are recognized after the drawings are held. Deferred revenue represents on-line tickets sold for future prize drawings.

G. Ticket Inventories

Inventories consist of instant tickets held by sales agents and instant and pull-tab tickets stored in the main or regional warehouses for games in progress or new games. Inventories are carried at cost using the specific identification method. Tickets are charged to instant and pull-tab rental and inventory expense when sold or voided. Unsold tickets are expensed upon the end or cancellation of a lottery game.

H. Capital Assets

Capital assets, which include vehicles and equipment, are defined by the Division as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or material extend asset lives are expensed. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts, and any resulting gain or loss is recognized in that period.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Equipment	2-10 years
Vehicles	2-4 years

I. Prize Liability

The prize liabilities for the \$100,000 Cash Game and Pick 3 Game are determined by actual matches and are recognized daily after the drawings are held. The prize liability for the Powerball, Hot Lotto, and Freeplay Replay Game are determined and recognized twice a week, after the jackpot drawings are held. Prizes for Pick 3, Freeplay Replay, and the \$100,000 Cash Game may be claimed up to 90 days after the jackpot drawing is held. Prizes for Powerball and Hot Lotto may be claimed up to one year after the drawings are held.

J. Interest Income

Generally, all cash is held on deposit with the Treasurer of State and is invested by that office. Interest on funds held by the State Treasurer is credited to the Lottery Division as received.

The Division also earned interest on the prize reserve account maintained by the Multi-State Lottery Association (MUSL).

K. Transfers

The Lottery Division transfers money monthly to the State General Fund as directed by the Legislature.

(2) Depreciation Expense

Depreciation expense for the six months ended December 31, 2002 totaled \$119,944.

(3) Pension and Retirement Benefits

The Lottery Division contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Lottery Division is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The Lottery Division's contribution to IPERS for the years ended June 30, 2002, 2001, and 2000 were \$271,028, \$257,606, and \$248,373, respectively, equal to the required contributions for each year.

(4) Lease Commitment

The Lottery Division occupies office and warehouse facilities in Des Moines, Cedar Rapids, Mason City, Storm Lake, Council Bluffs and Ankeny under long-term operating leases which expire by June 30, 2006. In addition, the Lottery Division rents pull-tab ticket machines under long-term operating leases which expire by September 30, 2004 and instant ticket machines which expire by December 31, 2004.

The following is a schedule, by year, of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2002:

Year ending June 30:	
2003	\$ 2,584,820
2004	2,567,495
2005	1,225,178
2006	<u>144,928</u>
Total	<u>\$ 6,522,361</u>

Rental expense for all operating leases totaled \$1,329,763 for the six months ended December 31, 2002.

(5) Payment of Prizes

Instant ticket prize expense is comprised of actual winning tickets validated for payment by any retailer or Lottery headquarters.

The Powerball prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4, or 5 of 5 numbers, or none, 1, 2, 3, or 4 of 5 numbers plus match the Powerball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers are matched, plus the Powerball number.

All pull-tab prizes are paid by the retailer who sold the ticket. Therefore, substantially all of the pull-tab prize expense shown on the financial statements has been disbursed to the prize winner.

The Pick 3 prize expense is comprised of winners who match 3 of 3 numbers. A player may win from \$50 to \$3,000 depending on the play type selected and the play amount. Play types are Straight, Box, or Straight/Box and require the player to match all numbers in the exact order as drawn, match all three numbers in any order, or match either exact and/or any order, respectively.

The \$100,000 Cash Game prize expense is comprised of winners who match 2, 3, 4, or 5 of 5 numbers.

The Freeplay Replay prize expense is comprised of winners who match 0, 4, 5, or 6 of 6 numbers. The top prize is \$15,000 per year for 15 years.

The Hot Lotto prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4, or 5 of 5 numbers, or none, 1, 2, 3, 4, of 5 numbers plus match the Hot Ball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers are matched, plus the Hot Ball number.

During the six months ended December 31, 2002, \$203,666 in prizes were distributed through various promotional activities.

(6) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage for the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to State property (casualty losses).

Upon advice of legal counsel, the Lottery Division has purchased commercial insurance for certain risks.

Supplemental Information

Lottery Division
Iowa Department of Revenue and Finance

Revenues, Expenses and Changes in Net Assets

Six months ended December 31, 2002 and 2001

	<u>Six Months Ended</u>		Increase (Decrease)
	<u>Dec 31, 2002</u>	<u>Dec 31, 2001</u>	
Operating revenues:			
Instant ticket sales	\$ 38,045,978	37,138,193	907,785
Powerball sales	31,090,096	34,187,189	(3,097,093)
Pull-tab sales	13,352,753	12,542,244	810,509
Pick 3 sales	2,709,572	2,194,157	515,415
\$100,000 Cash Game sales	2,083,535	2,086,321	(2,786)
Freeplay Replay sales	159,122	185,743	(26,621)
Hot Lotto sales	2,627,652	-	2,627,652
Rolldown sales	-	771,510	(771,510)
Application fees	11,125	7,350	3,775
Other	17,398	1,199,873	(1,182,475)
Total operating revenues	<u>90,097,231</u>	<u>90,312,580</u>	<u>(215,349)</u>
Operating expenses:			
Prizes:			
Instant ticket	23,784,248	23,257,055	527,193
Powerball	15,390,843	17,493,393	(2,102,550)
Pull-tab	8,724,799	8,195,476	529,323
Pick 3	1,686,775	1,303,628	383,147
\$100,000 Cash Game	1,031,372	1,026,895	4,477
Freeplay Replay	87,680	101,576	(13,896)
Hot Lotto	1,444,913	-	1,444,913
Rolldown	-	358,978	(358,978)
Promotional	203,666	77,353	126,313
Total prizes	<u>52,354,296</u>	<u>51,814,354</u>	<u>539,942</u>
Retailer compensation	5,967,049	6,035,845	(68,796)
Advertising/publicity	2,607,988	3,289,528	(681,540)
Vendor compensation/network expense	3,053,863	2,711,209	342,654
Instant and Pull-tab rental and inventory expense	2,334,755	2,529,686	(194,931)
Other operating expenses	4,508,857	4,308,512	200,345
Total operating expenses	<u>70,826,808</u>	<u>70,689,134</u>	<u>137,674</u>
Operating income	19,270,423	19,623,446	(353,023)
Non-operating revenue:			
Interest income	399,270	540,422	(141,152)
Income before operating transfers	<u>19,669,693</u>	<u>20,163,868</u>	<u>(494,175)</u>

Schedule 1

Lottery Division
Iowa Department of Revenue and Finance
Revenues, Expenses and Changes in Net Assets
Six months ended December 31, 2002 and 2001

	<u>Six Months Ended</u>		Increase (Decrease)
	<u>Dec 31, 2002</u>	<u>Dec 31, 2001</u>	
Transfers to other funds:			
State General Fund	19,803,092	19,837,627	(34,535)
Iowa Department of Public Health - Gambling Treatment Fund	<u>271,417</u>	<u>272,475</u>	<u>(1,058)</u>
Change in net assets	(404,816)	53,766	(458,582)
Net assets beginning of period	<u>2,313,964</u>	<u>2,151,078</u>	<u>162,886</u>
Net assets end of period	<u>\$ 1,909,148</u>	<u>2,204,844</u>	<u>(295,696)</u>

See accompanying independent auditor's report.

Lottery Division
Iowa Department of Revenue and Finance

Other Operating Expenses

Six months ended December 31, 2002 and 2001

	<u>Six Months Ended</u>		Increase (Decrease)
	Dec 31, 2002	Dec 31, 2001	
Personal services	\$ 3,177,976	2,993,736	184,240
Travel	163,954	166,805	(2,851)
Supplies	88,767	103,514	(14,747)
Printing	26,427	37,278	(10,851)
Communications	66,373	73,218	(6,845)
Rentals	300,624	284,658	15,966
Utilities	25,010	28,874	(3,864)
Professional fees	65,990	22,430	43,560
Outside services and repair	31,546	52,286	(20,740)
Equipment	98,143	87,978	10,165
Data processing	5,399	3,333	2,066
Reimbursement to state agencies	189,837	186,019	3,818
Multi-State administrative expense	114,587	78,926	35,661
Depreciation	119,944	143,314	(23,370)
Other	34,280	46,143	(11,863)
Total	<u>\$ 4,508,857</u>	<u>4,308,512</u>	<u>200,345</u>

See accompanying independent auditor's report.

Lottery Division
Iowa Department of Revenue and Finance



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STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Board Members of the
Lottery Division:

We have audited the statement of revenues, expenses and changes in net assets of the Lottery Division of the Iowa Department of Revenue and Finance for the six months ended December 31, 2002, and have issued our report thereon dated March 7, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lottery Division's statement of revenues, expenses and changes in net assets is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of the statement of revenues, expenses and changes in net assets amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lottery Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Lottery Division's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described in the accompanying Schedule of Findings is a material weakness.

This report, a public record by law, is intended solely for the information of the officials of the Lottery Division management and Lottery Board Members and other parties to whom the Division may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Lottery Division during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

March 7, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

Lottery Division
Iowa Department of Revenue and Finance

Schedule of Findings

Six months ended December 31, 2002

Findings Related to Financial Statements:

REPORTABLE CONDITION:

The Office of Auditor of State employed a public accounting firm to study and evaluate certain Lottery data processing controls in effect at Scientific Games International, Inc. The public accounting firm's report dated February 21, 2003 identified conditions where, in their opinion, control objectives had not been achieved, as follows:

- (A) Certain information protection policies and procedures were not fully implemented for the Scientific Games International, Inc. system.
- (B) Physical access to the facility and computing equipment was not restricted to limit personnel to the minimum level of access required to perform their assigned responsibilities.
- (C) System security logging and reporting functions were not fully enabled.
- (D) Certain backup files are not taken off-site according to the scheduled intervals.
- (E) Certain logs and checklists were not always complete.

The Lottery Division and Scientific Games International, Inc. responded that they will work to correct the conditions noted. These items will be reviewed by the public accounting firm again prior to June 30, 2003.

Lottery Division
Iowa Department of Revenue and Finance

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Kelly V. Rea, CPA, Staff Auditor
Sarah D. McFadden, Staff Auditor
Matthew J. Anfinson, Assistant Auditor
Kristen E. Harang, CPA, Assistant Auditor
Heather L. Templeton, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State