



COMMONWEALTH OF PENNSYLVANIA

***PENNSYLVANIA LOTTERY
EXAMINATION OF RETURNED UNSOLD INSTANT LOTTERY GAME TICKETS
HARRISBURG, PENNSYLVANIA***

AS OF DECEMBER 26, 2006

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Independent Auditor's Report

Mr. Ed Trees
Acting Executive Director
PENNSYLVANIA LOTTERY
2850 Turnpike Industrial Drive
Turnpike Industrial Park
Middletown, PA 17057-5492

Dear Mr. Trees:

We have examined the Pennsylvania Lottery's inventory list of returned unsold instant lottery game ticket packs (ticket packs) for games #250, #378, #408, #415, #419, #420, #423, #424, #425, #426, #427, #428, #429, #431, #432, #433, #436, #437, #447, #449 and #491 as of December 26, 2006. The Pennsylvania Lottery's management is responsible for the accuracy of the inventory list of ticket packs. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the accuracy of the inventory list of ticket packs on hand at the Pennsylvania Lottery and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination included the verification of the physical existence of the lottery tickets included in the respective ticket packs represented on the inventory list provided to us by the Pennsylvania Lottery. Our tests were designed to provide us with 95 percent confidence that the number of ticket packs on the inventory list but not in the Pennsylvania Lottery's inventory would be no greater than 5 percent of the number of ticket packs on the inventory list.

In our opinion, the inventory list referred to above, for games #250, #378, #408, #415, #419, #420, #423, #424, #425, #426, #427, #428, #429, #431, #432, #433, #436, #437, #447, #449 and #491 presents, in all material respects, the number of lottery ticket packs on hand for those games as of December 26, 2006.

This report is intended solely for the information and use of the Pennsylvania Lottery and is not intended to be and should not be used by anyone other than the specified party.

Sincerely,

December 26, 2006

JACK WAGNER
Auditor General

STATUS OF PRIOR PERIOD'S FINDING AND RECOMMENDATION



**PENNSYLVANIA LOTTERY
EXAMINATION OF RETURNED UNSOLD INSTANT LOTTERY GAME TICKETS
AS OF DECEMBER 26, 2006**

STATUS OF PRIOR PERIOD'S FINDING AND RECOMMENDATION

Introduction

Our prior attestation report on the Pennsylvania Lottery (Lottery), as of June 2, 2006, contained a finding and recommendation pertaining to deficiencies in policy and procedures governing the storage of returned, unsold instant lottery tickets.

During our current attestation, we reviewed Lottery's response to the finding and recommendation and determined the nature and extent of any corrective action taken relating to the deficiency noted in our prior attestation report. The current status of the finding and recommendation was discussed with representatives of Lottery at the time of our attestation and has not been reviewed subsequent to the date of our report.



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AS OF DECEMBER 26, 2006

STATUS OF PRIOR PERIOD'S FINDING AND RECOMMENDATION

Finding – The Pennsylvania Lottery's Instant Game Lottery Ticket Storage Policy and Procedures Are Outdated, Inefficient and Not Cost Effective

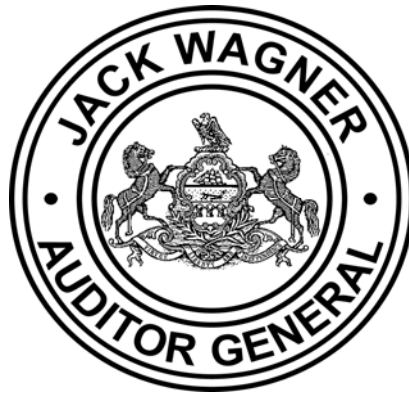
Our prior examination of the Pennsylvania Lottery (Lottery), as of June 2, 2006, found that policies and procedures to store returned unsold instant game lottery tickets were outdated, inefficient and not cost effective. Because the unsold instant game lottery tickets are deactivated prior to warehousing, we questioned the usefulness and cost effectiveness of storing and maintaining these tickets in the warehouse for many years beyond the prize expiration date. We recommended that Lottery management revise its instant game lottery tickets storage, policies and procedures to realize more efficient and cost-effective means of ticket disposition and to maximize its current lottery ticket operating and accounting system capabilities.

During our current examination, as of December 26, 2006, we found Lottery's outdated policies and procedures still existed.

Recommendation: We recommend that Lottery management revise its instant game lottery ticket process and retention policies and procedures to take advantage of their computerized systems that are in place.

Lottery Response: Lottery management agreed with our prior finding and recognize that their current procedures are now outdated. They anticipate a revised retention process to be in place by June 30, 2007.

Auditors' Conclusion: Based on Lottery's response, the finding and recommendation remain as stated above.



DISTRIBUTION

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AS OF DECEMBER 26, 2006
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.