



COMMONWEALTH OF PENNSYLVANIA

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

AS OF JUNE 2, 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 #341, #354, #384, #385, #387, #393, #398, #399, #401, #402, #403, #404, #405, #406, #407, #409, #410, #411, #412, #413, #414, #416, #417, #418 and #422 as of June 2, 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.

As discussed in the finding included in this report, we were unable to verify the existence of 1 of the 59 lottery ticket packs sampled, resulting in a sample error rate of 1.7 percent. This sample error represents with 95 percent confidence, that as high as 7.79 percent of the number of ticket packs on hand for those games as of June 2, 2006, may not be present.

In our opinion, because of the effects of the matters described in the preceding paragraph, the inventory list of lottery ticket packs referred to in the first paragraph does not present fairly the physical existence of returned unsold instant lottery ticket packs as of June 2, 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,

June 2, 2006

JACK WAGNER
Auditor General

FINDING AND RECOMMENDATION



PENNSYLVANIA LOTTERY
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AS OF JUNE 2, 2006

Finding – The Pennsylvania Lottery’s Instant Game Lottery Ticket Storage Policy and Procedures Are Outdated, Inefficient and Not Cost Effective

The current policy and procedures of the Pennsylvania Lottery (Lottery) to store returned unsold instant game lottery tickets are considered outdated, inefficient, and not cost effective.

At the conclusion of ticket sales of an instant lottery game, Lottery retailers deactivate and Lottery recalls full and partially full unsold ticket packs to Lottery headquarters where they are scanned to generate an inventory listing of all returned unsold instant game lottery tickets. After accounting for the returned tickets, Lottery stores the returned tickets/packs in boxes in its warehouse typically for several years until it requests the Department of the Auditor General to attest to the accuracy of its inventory listing.

Lottery has followed its current storage policy since the inception of Lottery ticket sales in 1975. At inception, Lottery did not possess advanced computerized instant game operating and accounting system capabilities and Lottery retailers were not able to deactivate tickets after conclusion of ticket sales. During its early years, Lottery was not able to quickly account for the return of instant game lottery tickets. As a result, Lottery required a large warehouse to store the returned instant game lottery tickets and a warehouse crew to move and store the boxes containing the returned lottery tickets.

During our attestation test work of returned instant game lottery tickets for 25 instant lottery games, Lottery could not locate one of the ticket packs selected for testing. The missing ticket pack represents a partial pack of 203 tickets for the Blarney Bucks instant lottery game. Ticket sales of this game closed on June 17, 2002, and payment of prize money for winning tickets expired on June 17, 2003. Lottery management stated that the missing pack was deactivated by a lottery retailer on March 26, 2002, and a Lottery field representative returned it to Lottery headquarters on March 29, 2002, where it was scanned and warehoused. Lottery management stated that warehouse employees searched the warehouse for the missing box but the box could not be located. Management also stated that this or any other missing ticket pack was unimportant because returned instant game lottery packs were deactivated and any holder of an instant game lottery ticket from the packs could not claim a prize. Management stated that these missing tickets were not reactivated and provided documentation showing that they were not cashed.

Currently, because of Lottery’s continued enhancement of computerization of its instant ticket operating and accounting system, Lottery retailers are able to deactivate unsold tickets at the end of ticket sales and Lottery is able to quickly reconcile and account for the return of unsold tickets. Lottery is now able to quickly account for the returned tickets.

Because the unsold instant game lottery tickets are deactivated prior to warehousing, we question the usefulness and cost effectiveness of storing and maintaining these tickets in the warehouse for many years beyond the prize expiration date, which is one year after ticket sales end.

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Finding

As a result of Lottery not updating its current storage policy and procedures and failing to address changes within its instant game ticket operating and accounting system capabilities, Lottery incurs warehouse storage space and labor storage costs that may not be necessary.

Recommendation: We recommend that Lottery management revise its instant game lottery ticket storage policy and procedures to realize more efficient and cost effective means of ticket disposition. The policy and procedures should maximize current instant game lottery ticket operating and accounting system capabilities.

Lottery Response: The Lottery agrees with the finding and recognizes that the current procedures and process are now outdated. We are currently in the process of revising the procedures to take full advantage of the computerized systems that have been in place for several years. The revised process and retention requirements are anticipated to be in place by June 30, 2007.

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

DISTRIBUTION

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AS OF JUNE 2, 2006
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