



A Legislative Summary Document Regarding Texas Lottery Commission

Contents

Financial Profile

Key Findings from Previous Audits and Reviews

Performance Management

Disaster Preparedness

Information System Vulnerability Assessments

Travel Expenditures

State Auditor's Observations

The Texas Lottery Commission's (Lottery) methods for estimating expenditures and revenues appear to be reasonable and should result in an accurate Legislative Appropriations Request (LAR).

At the end of the third quarter of fiscal year 2002, the Lottery was significantly below the target for five of its eight key output measures.

The Lottery's unexpended balances represent remaining appropriated dollars for capital budget projects that were approved by the 76th Legislature and statutorily authorized to be carried forward.

Prepared for the 78th Legislature
by the State Auditor's Office

January 2003

SAO No. 03-367

This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.

Texas Lottery Commission

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Financial Profile

Legislative Appropriations Request Preparation

The Texas Lottery Commission (Lottery) projects revenues by using a trend analysis based on weekly sales for each game. The lottery operator provides the sales data, and the Lottery's Marketing Division (Division) generates a trend line based on 52 weeks of data. The Division regularly validates the sales data provided by the lottery operator and analyzes problems with its revenue predictions.

The Budget section of the Lottery's Financial Administration Division prepares the Legislative Appropriations Request (LAR) with substantial input from the Executive Director, Charitable Bingo Operations Director, and others throughout the agency. The Budget section compares each division's estimated expenditures to prior years to determine whether they are reasonable. Any unusual variances are investigated and must be justified. The Commissioners approve all requests for capital projects included in the LAR.

Although the Lottery uses revenue projection methods that should result in an accurate LAR, we noted an inconsistency in the Lottery's reporting of revenue. The Lottery reports lottery ticket revenue differently in its LAR than in the Uniform Statewide Accounting System (USAS). The Lottery reports estimated ticket sales revenue as a gross amount in the LAR, but it reports actual ticket sales revenue in USAS as a net amount (sales less retailers' commissions and prizes paid), which is the same way the revenues are collected. As a result, actual revenues recorded in USAS appear to be much less than those estimated in the LAR. For example, in fiscal year 2001, actual net revenues were 53 percent below the gross estimate. However, when comparing estimated gross revenues to actual gross, there was only a 4 percent difference.

Expenditures by Category

The table below shows the Lottery's expenditures by Comptroller of Public Accounts category as reported by the Lottery in USAS for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how the Lottery has spent its funds. We obtained explanations from the Lottery for fluctuations across years that appeared unusual.

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Interfund Transfers/Other (Note A)	\$ 2,327,103,160	\$ 2,196,492,944	\$ 1,431,126,640
Lottery Winnings Paid	406,844,046	495,514,014	423,360,301
Other Expenditures	132,873,115	133,707,109	127,914,425
Printing and Reproduction	14,635,468	10,464,533	14,700,597
Salaries and Wages ^a	11,984,464	12,650,004	13,752,155
Intergovernmental Payments	9,694,223	9,288,121	9,138,868
Rentals and Leases	4,919,311	5,535,963	5,097,890
Employee Benefits	2,487,917	2,656,820	3,083,385
Professional Services and Fees	1,674,068	4,513,896	4,518,297
Capital Outlay	959,134	527,188	728,628
Supplies and Materials	747,342	788,364	350,548
Communications and Utilities	601,433	567,689	418,629
Travel	394,960	407,895	430,371

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Repairs and Maintenance	392,353	505,971	697,435
Claims and Judgments	0	12,596	0
Interest/Prompt Payment Penalties	18,422	13,137	506
Total Expenditures	\$2,915,329,416	\$2,873,646,244	\$2,035,318,675

^a The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards.

Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.

Note A – Interfund Transfers/Other represents various transactions including transfers and adjustments made by the Comptroller. The Lottery indicates that in appropriation years 2000, 2001, and 2002, approximately \$790.6 million, \$799.1 million, and \$843.8 million, respectively, were transferred to the Foundation School Fund. In addition, in the same years, approximately \$28.1 million, \$21.7 million and \$69.9 million, respectively, were transferred to the Multicategorical Teaching Hospital and the Tertiary Care Facility accounts.

Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

An Audit Report on State Entity Management of Travel Advance and Petty Cash Funds

(Report No. 02-070, August 2002)

The five state agencies we audited spent and accurately reported their travel advance and petty cash funds in accordance with state laws and regulations. However, through our analysis, we determined that state agencies and institutions of higher education do not appear to need all the travel advance and petty cash funds they have set aside. If not spent, these funds remain unused in bank accounts outside of the State Treasury. We also identified control weaknesses related to travel advance and petty cash accounts at the agencies we audited.

**Status of Audit Recommendations as of
November 30, 2002**

No status is reported at this time to allow the Lottery sufficient time to address recommendations in this recently released report.

The Texas Lottery Commission’s (Lottery) travel advance fund balance was \$25,000, but its highest monthly travel advance fund expenditures from this fund in fiscal years 2000 and 2001 totaled \$5,036. This indicates that the Lottery did not review fund activity to determine its current needs. On July 1, 2002, the Lottery specified that it intended to return \$19,000 in excess travel advance funds to the State Treasury. The Lottery indicated that \$8,500 of the \$19,000 will be returned upon resolution of travel advance issues noted in our report.

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Performance Management

Performance Indicators Used by Management

The Texas Lottery Commission (Lottery) uses performance measures provided in the General Appropriations Act to determine whether it is meeting its mission.

Performance results are reviewed at various levels within the organization. Divisions are responsible for estimating performance targets and determining corrective action. All divisions report their performance to the Financial Administration Division quarterly. Senior management reviews the performance information prior to Financial Administration's reporting of it to the Legislative Budget Board (LBB).

When actual performance varies from targeted performance, the divisions take various forms of corrective action. Corrective action includes adjusting the targets to more reasonable figures, recruiting new retailers, strengthening debt collection and enforcement efforts, developing ways to correct problems at weekly meetings with vendors, surveying players, and reallocating funds.

Estimating Performance Targets

The Lottery's methods for estimating performance targets appear to be reasonable. Various divisions at the Lottery estimate performance targets. Their methods vary according to their functions. For example, the Marketing Division uses historical data, annual marketing and advertising plans, advertising trends, economic conditions, and assessments of sales trends. The Operations Division uses information from the lottery operator's database, the Security Licensing system, and the Human Resources and the Financial Administration Divisions. The Security Division uses a case-tracking system on which it keeps information on each complaint case, including the status, the number of days for resolution, and the open date and close date.

Most Recent Performance Measure Certification

Fiscal Year 1998–Fiscal Year 2003

The results of *An Audit Report on Performance Measures at 25 State Agencies and Educational Institutions–Phase 14* (Report No. 01-007, November 2000) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
1999	A	Operate Lottery	State revenue received per advertising dollar expended	Inaccurate
1999	A.1.1	Lottery Operations	Number of retailer business locations licensed	Certified
1999	A.1.1	Lottery Operations	Average cost per retailer location license issued	Certified with Qualification
1999	A.1.2	Marketing, Research and Promotion	Number of surveys issued to retailers	Certified with Qualification
1999	A.1.2	Marketing, Research and Promotion	Average cost per survey issued	Factors Prevented Certification
1999	A.1.3	Advertising	Percentage of adult Texans aware of lottery advertising	Certified with Qualification
1999	A.1.4	Security	Number of lottery complaints resolved	Certified with Qualification
1999	A.1.4	Security	Average cost per complaint resolved	Factors Prevented Certification
Total Measures Certified Without Qualification^a				1/8 (13%)
Data Reliability Percentage (Certified and Certified with Qualification)				5/8 (63%)

^a The percentage of unqualified certifications is presented because it is used in determining an entity's eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].

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Category	Definition
Certified	Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data.
Certified with Qualification	Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data.
Factors Prevented Certification	Actual performance cannot be determined because of inadequate controls and insufficient documentation.
Inaccurate	Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation.
Not Applicable	A justifiable reason exists for not reporting performance.

Disaster Preparedness

We gathered information from the Texas Lottery Commission (Lottery) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating the Lottery's plans. Our objective was only to provide the information reported by the Lottery.

The Lottery has a business resumption plan (BRP) in place to allow the Lottery to resume lottery functions in a timely manner and minimize losses in the event of a disaster. The BRP Master Recovery Plan is composed of several elements, including:

- An off-site storage plan.
- An information technology restoration plan designed to resume customer service functions within four hours and all other functions within 72 hours of activation of the plan.
- The transfer of business functions to an alternative site.
- A call list for furniture and equipment vendors and contacts for procurement of additional office space.
- An emergency evacuation plan.
- Documented guidelines for notifying emergency management team members, declaring disaster by the Executive Director, verifying the time frame and need for relocation, and restoring critical functions in each division.

The Lottery indicates that it has procedures in place to conduct a drawing at a secure, off-site location in case of a disaster. It has machines and ball sets at its warehouse for each game as well as necessary communications equipment.

Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Texas Lottery Commission between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

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Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 304,020	\$ 339,693	\$ 351,184
Out-of-State Travel	91,889	68,201	79,076
Foreign Travel	0	0	0
Other Travel Costs	(949)	0	112
Total Travel Expenditures	\$ 394,960	\$ 407,894	\$ 430,372
Limit on Travel Expenditures (Cap)	702,930	702,930	91,889 ^a
Expenditures in Excess of Cap	\$ 0	\$ 0	\$ 0

^a Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by the Lottery and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.