

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "JUSTICE WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

**Nicole Galloway, CPA**

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**Missouri State Auditor**

**Missouri State Lottery Commission**

Report No. 2019-065

August 2019

[auditor.mo.gov](http://auditor.mo.gov)



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Missouri State Lottery Commission

### Findings

The audit identified no significant deficiencies in internal controls, no significant noncompliance with legal provisions, and no significant deficiencies in management practices and procedures. No findings resulted from the audit.

In the areas audited, the overall performance of this entity was **Excellent**.\*

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Missouri State Lottery Commission

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## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

Honorable Michael L. Parson, Governor  
and  
Missouri State Lottery Commission  
and  
May Scheve Reardon, Executive Director  
Missouri State Lottery Commission  
Jefferson City, Missouri

The State Auditor is required under Section 313.315.1, RSMo, to audit the Missouri State Lottery Commission. The Lottery engaged CliftonLarsonAllen LLP, Certified Public Accountants (CPAs), to audit the Lottery's financial statements for the years ended June 30, 2018 and 2017. To satisfy our statutory obligation and minimize duplication of effort, the State Auditor has used the work of the CPA firm. We reviewed the reports and substantiating working papers of the CPA firm to satisfy ourselves as to the appropriateness of using the reports, and we accept them in partial fulfillment of our duties. We have also audited certain operations of the Lottery in fulfillment of our duties under Section 313.315.1, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2018 and 2017. The additional objectives of our audit were to:

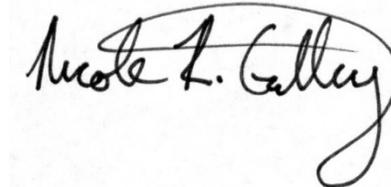
1. Evaluate the Lottery's internal controls over significant management and financial functions.
2. Evaluate the Lottery's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the Lottery, analysis of comparative data obtained from external and/or internal sources; review of contracts that are specific to the auditee's operations and significant within the context of the audit objectives; and testing selected transactions. We obtained an understanding of internal controls that are 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 applicable contract, grant agreement, 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 Organization and Statistical Information is presented for informational purposes. This information was obtained from the Lottery's management and was not subjected to the procedures applied in our audit of the Lottery.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) no significant deficiencies in management practices and procedures. No findings resulted from our audit of the Missouri State Lottery Commission.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Kim Spraggs, CPA, CGAP
Audit Manager:	Josh Allen, CPA, CFE, CGAP
In-Charge Auditor:	James M. Applegate, MBA
Audit Staff:	Scott Davis, MAc, CPA
	Joel Stucky
	Emmett Spradlin

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# Missouri State Lottery Commission

## Organization and Statistical Information

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Pursuant to Sections 313.200 to 313.350, RSMo, the Missouri State Lottery Commission (Lottery) was created in June 1985. That action followed voter approval of a lottery amendment to the Missouri Constitution at the November 1984 general election. The Lottery began selling instant game tickets on January 20, 1986. From 1986 to 1993, lottery proceeds less prizes and expenses were transferred to the General Revenue Fund for appropriation by the General Assembly. Effective July 1, 1993, pursuant to a voter approved lottery amendment to Article III, Section 39(b), Missouri Constitution, lottery proceeds are transferred to the Lottery Proceeds Fund for appropriation by the General Assembly for educational purposes.

Section 313.321 RSMo, provides that all monies received from the sale of Missouri lottery tickets and all other sources shall be deposited in the State Lottery Fund (SLF), and at least 45 percent of monies from ticket sales shall be used to fund lottery prizes. The General Assembly may appropriate SLF monies to the Lottery for expenses related to administration, advertising, promotion, and retailer compensation.

Traditionally, the Lottery has paid out more than the minimum 45 percent of sales as prizes. The pay-out percentage has averaged 62.43 percent from 1986 to 2018. The prize percentage fluctuates each year based on factors such as the type of scratcher tickets sold (each game has a different prize structure) and the timing of payouts related to draw game sales such as the Powerball and Mega Millions games. Lottery officials believe that more people will play if there are more prizes to receive.

Lottery retailers are authorized to redeem prizes up to \$600, or players may claim any prizes in person at any of the Lottery offices. Prizes paid by the Lottery are paid from an imprest checking account that is reimbursed from the SLF. Prior to July 1, 2016, net sales due from retailers were deposited into the Lottery Enterprise Fund (LEF) and used to reimburse the imprest checking account. Beginning July 1, 2016, the SLF began receiving the net sales due from retailers. Monies are transferred from the SLF to the LEF for lottery operational costs.

### Estimated Transfers of Profits

Article III, Section 39(b), of the Missouri Constitution requires Lottery profits be transferred to the Lottery Proceeds Fund to be appropriated solely for public institutions of elementary, secondary and higher education. In September each year, as part of the state budget process, the Lottery develops estimates of the transfer for the subsequent fiscal year in its budget request submitted to the Office of Administration and Governor. For example, the estimate for fiscal year 2018 (which began July 2017) was developed by the Lottery in September 2016. The Lottery's estimates provide a basis from which the Governor incorporates estimates into the budget submitted to the General Assembly for determining appropriations to schools from the Lottery Proceeds Fund.



Missouri State Lottery Commission  
 Organization and Statistical Information

Estimated and actual transfers for the last 4 fiscal years were as follows:

Estimated and actual transfers to the Lottery Proceeds Fund

	Year Ended June 30,			
	2018	2017	2016	2015
Lottery estimate	\$ 286,004,759	278,794,691	278,723,574	298,563,213
Actual cash transfer	306,072,098	297,874,417	308,993,403	270,701,018
Actual over (under) estimate	\$ 20,067,339	19,079,726	30,269,829	(27,862,195)
Variance from estimate	7.0%	6.8%	10.9%	(9.4%)

Beginning with fiscal year 2017, the Lottery estimates transfers using the average of the total actual transfers for the preceding 5 fiscal years plus 1 percent. The Lottery's estimated transfers were \$289.6 million and \$293.1 million for the fiscal year 2019 and 2020 budgets, respectively.

Commission

A five-member Lottery commission is appointed by the Governor with the advice and consent of the Senate. The commission must meet at least quarterly. The commission has the authority to promulgate rules as it deems necessary and desirable to fully implement the Lottery as mandated by the people in Article III, Missouri Constitution. The commission appoints an executive director to act as secretary of the commission and keep all books and records of the commission. The executive director oversees the commission's operation and administration. At June 30, 2018, May Scheve Reardon served as Executive Director, and members of the commission were:

Commissioner	Term Expiration
John (Mike) Hannegan	September 2018
Paul K. Kincaid, Chairman	September 2017
Dr. Judene Blackburn	September 2016
Michael Grewe, Vice-Chairman	September 2020
Robin Simpson	September 2019

Section 313.215, RSMo, requires appointments to be made within 30 days of the expiration of a term. However, the current practice is for the expired member to serve until reappointed or a new member is appointed.

The Lottery is organized into four divisions: Executive, Sales, Marketing, and Operations. Each division is headed by a director who coordinates activities to meet the commission's objectives. At June 30, 2018, the Missouri State Lottery Commission employed 153 individuals.

Financial Activity

A summary of the Lottery's operating financial activity is presented in the following Appendixes.

Appendix A

Missouri State Lottery Commission  
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2018			2017		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>LOTTERY ENTERPRISE FUND</b>						
Lottery prizes	\$ 0	0	0	12,750,000	0	12,750,000
Advertising expenses	16,000,000	15,999,996	4	16,000,000	15,999,987	13
Personal services	7,075,249	6,706,457	368,792	7,075,249	6,811,521	263,728
Payment of real property leases, related services, utilities, system furniture, and structural modifications - expense and equipment	1,523,847	1,126,538	397,309	872,543	867,078	5,465
Expense and equipment	43,262,397	40,682,565	2,579,832	35,718,992	34,023,937	1,695,055
Total Lottery Enterprise Fund	<u>67,861,493</u>	<u>64,515,556</u>	<u>3,345,937</u>	<u>72,416,784</u>	<u>57,702,523</u>	<u>14,714,261</u>
<b>STATE LOTTERY FUND</b>						
Lottery prizes	<u>174,075,218</u>	<u>166,459,472</u>	<u>7,615,746</u>	<u>147,360,494</u>	<u>147,360,493</u>	<u>1</u>
Total State Lottery Fund	<u>174,075,218</u>	<u>166,459,472</u>	<u>7,615,746</u>	<u>147,360,494</u>	<u>147,360,493</u>	<u>1</u>
Total All Funds	<u>\$ 241,936,711</u>	<u>230,975,028</u>	<u>10,961,683</u>	<u>219,777,278</u>	<u>205,063,016</u>	<u>14,714,262</u>

Appendix B

Missouri State Lottery Commission  
Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Salaries and wages	\$ 6,706,457	6,811,521	6,782,747	6,687,606	6,614,485
Travel, in-state	130,269	140,227	122,314	115,939	118,879
Travel, out-of-state	72,031	39,651	52,057	40,626	47,158
Fuel and utilities	42,519	39,350	38,184	40,846	41,245
Supplies	807,548	743,649	704,154	628,355	633,931
Professional development	140,765	113,876	130,518	71,648	101,377
Communication services and supplies	264,726	306,632	356,146	312,118	425,961
Services:					
Printing and binding	10,320,967	7,733,796	7,829,480	6,713,548	8,208,242
Advertising	14,021,940	13,571,864	13,501,826	10,676,014	14,056,807
Other business	23,440,925	19,424,599	20,832,033	14,723,363	13,738,344
Accounting and auditing	215,018	208,019	206,380	197,565	196,215
Public relations	1,534,293	1,496,890	1,865,127	1,383,764	1,733,761
Other professional	3,025,729	2,894,702	3,053,372	2,526,534	4,974,385
Housekeeping and janitorial	64,746	56,537	55,291	45,989	50,248
Maintenance and repair	840,806	909,086	732,941	1,065,687	962,948
Equipment:					
Computer	391,230	754,429	1,215,452	462,670	731,754
Motorized	136,948	177,850	136,214	193,868	302,000
Office	46,844	17,461	80,012	58,237	12,774
Other	889,668	998,863	586,657	427,350	831,292
Property and improvements	642,675	503,564	128,242	80,281	126,117
Building lease payments	514,523	449,554	433,910	430,541	436,002
Equipment rental and leases	87,917	76,318	70,734	3,283,405	3,416,216
Lottery prizes	164,906,021	140,538,806	166,709,217	132,259,433	155,959,740
Lottery prizes-merchandise	1,553,451	6,821,688	7,366,001	7,054,490	6,840,850
Lottery retailer-incentives	67,760	73,280	175,618	133,223	276,018
Lottery retailer incentives - merchandise	53,677	95,979	181,420	131,518	66,957
Agency provided food	20,572	18,587	10,691	23,006	27,715
Miscellaneous expenses	31,408	35,859	82,918	39,516	29,248
Refunds	3,595	10,379	3,483	2,880	5,500
Total Expenditures	\$ <u>230,975,028</u>	<u>205,063,016</u>	<u>233,443,139</u>	<u>189,810,020</u>	<u>220,966,169</u>

## Appendix C

Missouri State Lottery Commission  
(An Enterprise Fund of the State of Missouri)  
Statements of Net Position As of June 30, 2018 and 2017

	2018	2017
<b>Current Assets</b>		
Cash and cash equivalents	\$ 59,063,698	37,508,864
Investments held for grand-prize winners	3,402,187	3,416,653
Accounts receivable, net of allowances for returns	52,996,747	50,472,073
Other assets	299,675	240,232
Total current assets	115,762,307	91,637,822
<b>Noncurrent Assets</b>		
Capital assets		
Capital assets not being depreciated	600,885	359,579
Capital assets	12,884,399	12,927,945
Accumulated depreciation	(10,890,775)	(10,317,636)
	2,594,509	2,969,888
Investments held for grand-prize winners	29,395,660	33,128,585
Total noncurrent assets	31,990,169	36,098,473
Total assets	147,752,476	127,736,295
<b>Deferred Outflows</b>		
Deferred Outflows - Pension	5,917,437	5,667,097
Deferred Outflows - Other Post-Employment Benefits (OPEB)	283,130	280,008
Total Deferred Outflows	6,200,567	5,947,105
<b>Current Liabilities</b>		
Accounts payable	547,820	2,178,353
Due to Lottery Proceeds Fund	27,949,949	1,569,218
Accrued prize liabilities	75,798,740	78,274,162
Grand-prize winner liabilities	3,434,000	3,434,000
Other accrued liabilities	5,181,685	5,262,119
Total current liabilities	112,912,194	90,717,852
<b>Long-term Liabilities</b>		
Due to Lottery Proceeds Fund	3,532,455	2,592,560
Grand-prize winner liabilities	27,352,404	29,476,471
Net Pension Liability	18,003,639	16,213,218
Net OPEB Liability	7,473,049	7,252,358
Total long-term liabilities	56,361,547	55,534,607
Total liabilities	169,273,741	146,252,459
<b>Deferred Inflows</b>		
Deferred Inflows - Pension	334,477	162,164
Deferred Inflows - OPEB	14,017	0
Total deferred inflows	348,494	162,164
<b>Net Position</b>		
Investment in capital assets	2,594,509	2,969,888
Unrestricted	(20,275,144)	(19,335,879)
Restricted for the unrealized gain/loss on investments held for grand-prize winners	2,011,443	3,634,768
Total net position	\$ (15,669,192)	(12,731,223)

Source: Excerpt from the Missouri State Lottery Commission's audited financial statements.

## Appendix D

Missouri State Lottery Commission  
 (An Enterprise Fund of the State of Missouri)  
 Statements of Revenues, Expenses and Changes In Net Position  
 For The Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Scratchers ticket sales	\$ 906,750,562	868,860,724
Draw Game ticket sales	407,434,258	366,627,267
Pull-Tab ticket sales	86,031,403	107,177,118
Total sales	1,400,216,223	1,342,665,109
Other	141,620	122,247
Total operating revenues	1,400,357,843	1,342,787,356
Operating Expenses		
Scratchers prizes	627,758,243	628,819,481
Draw Game prizes	234,328,837	206,821,350
Pull-Tab prizes	77,392,802	96,456,214
Scratchers retailer commissions and incentives	57,743,804	55,486,736
Draw Game retailer commissions and incentives	23,137,954	20,858,484
Pull-Tab retailer commissions and incentives	1,727,416	2,144,532
Cost of tickets sold	26,730,754	23,623,749
Depreciation	1,068,721	1,012,816
Advertising	15,999,996	15,999,987
Wages and benefits	12,192,088	11,359,488
Other general and administrative	8,746,472	7,925,065
Total operating expenses	1,086,827,087	1,070,507,902
Operating income	313,530,756	272,279,454
Nonoperating Revenues (Expenses)		
Interest income	464,854	186,447
Unclaimed prizes	18,050,899	19,209,102
Gain (Loss) on sale of capital assets	31,570	(18,788)
Net increase (decrease) in the fair value of investments held for grand-prize winners	(313,392)	(1,098,544)
Amortization of grand-prize winner liability	(1,309,933)	(1,370,943)
Transfers to State of Missouri Lottery Proceeds Fund	(333,392,723)	(291,583,694)
Total nonoperating revenues (expenses)	(316,468,725)	(274,676,420)
Changes in net position	(2,937,969)	(2,396,966)
Total Net Position, Beginning of Year	(12,731,223)	(3,361,907)
Prior Period Adjustment	0	(6,972,350)
Total Net Position, End of Year	\$ (15,669,192)	(12,731,223)

Source: Excerpt from the Missouri State Lottery Commission's audited financial statements.

## Appendix E

Missouri State Lottery Commission  
 (An Enterprise Fund of the State of Missouri)  
 Statements of Cash Flows  
 For The Years Ended June 30, 2018 and 2017

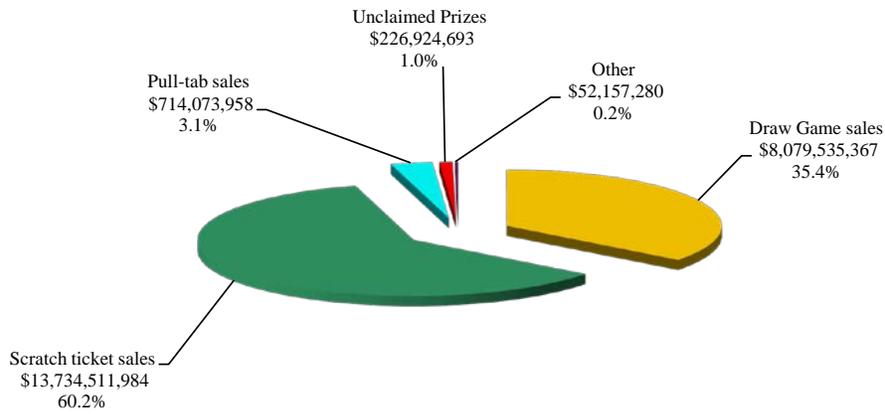
	2018	2017
<b>Cash Flows From Operating Activities</b>		
Cash received from retailers and others	\$ 1,397,482,207	1,337,555,046
Cash paid for prizes	(927,338,405)	(907,087,205)
Cash paid for retailer commissions	(82,436,288)	(78,410,871)
Cash paid for employee services	(10,215,451)	(10,092,647)
Cash paid for other expenses	(53,102,213)	(45,757,114)
Net cash provided by operating activities	324,389,850	296,207,209
<b>Cash Flows From Noncapital Financing Activities</b>		
Transfers to State of Missouri	(306,072,097)	(297,874,416)
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of capital assets	(693,846)	(1,113,404)
Proceeds from sale of capital assets	32,073	47,456
Net cash used for capital and related financing activities	(661,773)	(1,065,948)
<b>Cash Flows From Investing Activities</b>		
Proceeds from maturity of investments	3,434,000	4,008,000
Interest received	464,854	186,447
Net cash provided by investing activities	3,898,854	4,194,447
Net Increase in Cash and Cash Equivalents	21,554,834	1,461,292
Cash and Cash Equivalents, Beginning of Year	37,508,864	36,047,572
Cash and Cash Equivalents, End of Year	59,063,698	37,508,864
<b>Reconciliation of Operating Income to Net Cash Provided by</b>		
<b>Operating Activities</b>		
Operating income	313,530,756	272,279,454
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,068,721	1,012,816
Noncash pension expense adjustment	1,943,980	1,314,644
Unclaimed prizes	18,050,899	19,209,102
Payments to grand-prize winners	(3,434,000)	(4,008,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(2,524,674)	(4,847,452)
(Increase) decrease in other receivables	(59,443)	(11,431)
(Increase) decrease in prepaid expenses	0	185,084
Increase (decrease) in accounts payable and other accrued liabilities	(1,710,967)	1,264,255
Increase (decrease) in accrued prize liabilities	(2,475,422)	9,808,737
Net cash provided by operating activities	324,389,850	296,207,209
<b>Noncash Activities</b>		
Net increase (decrease) in the fair value of investments held for grand-prize winners	(313,392)	(1,098,544)
Amortization of grand-prize winner liability	\$ 1,309,933	1,370,943

Source: Excerpt from the Missouri State Lottery Commission's audited financial statements.

Appendix F

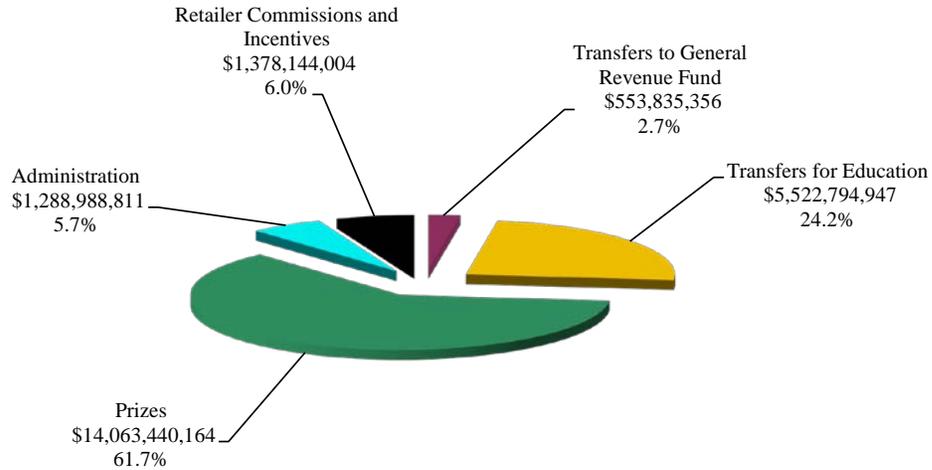
Missouri State Lottery Commission  
Revenue and Expenditure Charts  
January 20, 1986 Through June 30, 2018

**Revenues**



Total Revenues: \$22,807,203,282

**Expenditures**

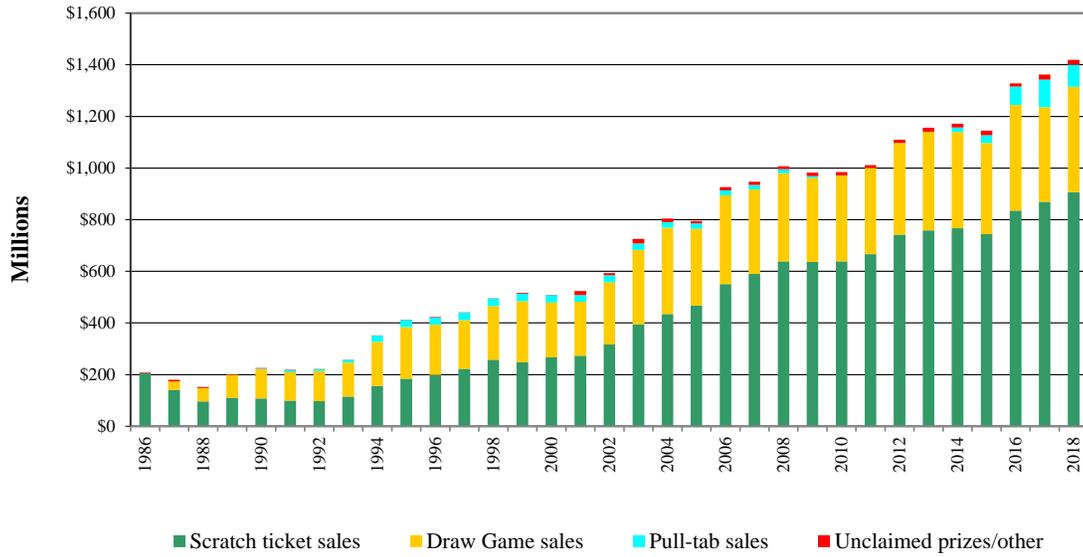


Total Expenditures: \$22,807,203,282

Appendix G

Missouri State Lottery Commission  
 Revenue and Expenditure Charts  
 January 20, 1986 Through June 30, 2018

**Revenues**



**Expenditures**

