

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. 2020-129

December 2020

[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, 2020 and 2019. 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 under Section 313.315.1, RSMo. We have also audited certain operations of the Lottery in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2020 and 2019. The additional objectives of our audit were to:

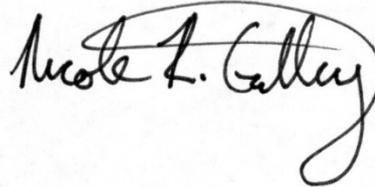
1. Evaluate the Lottery's internal controls over significant management and financial functions.
2. Evaluate the Lottery's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures.

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 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 control that is significant to the audit objectives and assessed the design, implementation, and operating effectiveness of such internal control to the extent necessary to address our audit objectives. 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, CIA, CFE, CGAP
In-Charge Auditor:	Steven J. Barton
Audit Staff:	Ethan D. Evans, CFE, CGAP Joel Stucky

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# Missouri State Lottery Commission

## Organization and Statistical Information

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Pursuant to Sections 313.200 to 313.351, 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 money received from the sale of lottery tickets shall be allocated as follows: a minimum of 45 percent shall be awarded as prizes; administration, advertising, promotion, and retailer compensation costs shall be paid as appropriated by the General Assembly; and the remainder shall be transferred to the Lottery Proceeds Fund to be appropriated solely for public institutions of elementary, secondary, and higher education.

Traditionally, the Lottery has paid out more than the minimum 45 percent of sales as prizes. The pay-out percentage has averaged 63.28 percent from 1986 to 2020. 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.

### Estimated Transfers of Profits

Article III, Section 39(b), of the Missouri Constitution requires transfer of Lottery profits 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 2021 (which began July 2020) was developed by the Lottery in September 2019. 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,			
	2020	2019	2018	2017
Lottery estimate	\$ 293,095,042	289,606,888	286,004,759	278,794,691
Actual cash transfer	333,000,000	323,000,000	306,072,098	297,874,417
Actual over (under) estimate	\$ 39,904,958	33,393,112	20,067,339	19,079,726
Variance from estimate	13.6%	11.5%	7.0%	6.8%

The Lottery estimates transfers using the average of the total actual transfers for the preceding 5 fiscal years plus 1 percent rather than assuming continued growth. The Lottery's estimated transfers were \$309.1 and \$317.2 million for the fiscal year 2021 and 2022 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, 2020, May Scheve Reardon served as Executive Director, and members of the commission were:

Commissioner	Term Expiration (1)
John (Mike) Hannegan	September 2018
Lance Mayfield, Chairman	September 2022
Robert Gattermeir	September 2022
Michael Grewe, Vice-Chairman	September 2020
John Clark Hemeyer (2)	September 2020

(1) 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.

(2) John Clark Hemeyer was reappointed to a term ending in September 2023, and confirmed by the Senate in December 2020.

The Lottery staff 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, 2020, 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,					
	2020			2019		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
<b>LOTTERY ENTERPRISE FUND</b>						
Advertising expenses	\$ 5,000,000	4,148,780	851,220	16,000,000	15,999,997	3
Personal services	7,325,225	7,119,329	205,896	7,129,896	6,841,029	288,867
Payment of real property leases, related services, utilities, system furniture, and structural modifications - expense and equipment	390,689	353,919	36,770	358,877	353,682	5,195
Expense and equipment	48,278,180	40,465,484	7,812,696	44,523,662	41,785,026	2,738,636
Total Lottery Enterprise Fund	<u>60,994,094</u>	<u>52,087,511</u>	<u>8,906,583</u>	<u>68,012,435</u>	<u>64,979,734</u>	<u>3,032,701</u>
<b>STATE LOTTERY FUND</b>						
Lottery prizes	<u>174,075,218</u>	<u>147,408,366</u>	<u>26,666,852</u>	<u>174,075,218</u>	<u>174,075,218</u>	<u>0</u>
Total State Lottery Fund	<u>174,075,218</u>	<u>147,408,366</u>	<u>26,666,852</u>	<u>174,075,218</u>	<u>174,075,218</u>	<u>0</u>
Total All Funds	<u>\$ 235,069,312</u>	<u>199,495,877</u>	<u>35,573,435</u>	<u>242,087,653</u>	<u>239,054,952</u>	<u>3,032,701</u>

Appendix B

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

	Year Ended June 30,				
	2020	2019	2018	2017	2016
Salaries and wages	\$ 7,119,329	6,841,029	6,706,457	6,811,521	6,782,747
Travel, in-state	94,853	108,700	130,269	140,227	122,314
Travel, out-of-state	50,952	75,649	72,031	39,651	52,057
Fuel and utilities	126,305	141,672	42,519	39,350	38,184
Supplies	754,190	863,558	807,548	743,649	704,154
Professional development	125,027	145,664	140,765	113,876	130,518
Communication services and supplies	313,306	299,804	264,726	306,632	356,146
Services:					
Printing and binding	10,953,765	9,010,460	10,320,967	7,733,796	7,829,480
Advertising	3,721,914	14,613,928	14,021,940	13,571,864	13,501,826
Other business	20,976,613	24,089,179	23,440,925	19,424,599	20,832,033
Accounting and auditing	216,441	215,589	215,018	208,019	206,380
Public relations	1,456,735	1,515,652	1,534,293	1,496,890	1,865,127
Other professional	1,618,563	2,574,219	3,025,729	2,894,702	3,053,372
Housekeeping and janitorial	64,500	65,814	64,746	56,537	55,291
Maintenance and repair	1,250,009	1,248,546	840,806	909,086	732,941
Equipment:					
Computer	335,273	303,914	391,230	754,429	1,215,452
Motorized	307,622	190,412	136,948	177,850	136,214
Office	26,604	32,356	46,844	17,461	80,012
Other	689,748	622,087	889,668	998,863	586,657
Property and improvements	232,174	274,541	642,675	503,564	128,242
Building lease payments	375,398	379,922	514,523	449,554	433,910
Equipment rental and leases	1,053,991	1,095,455	87,917	76,318	70,734
Lottery prizes	146,161,560	172,393,075	164,906,021	140,538,806	166,709,217
Lottery prizes-merchandise	1,249,556	1,686,893	1,553,451	6,821,688	7,366,001
Lottery retailer-incentives	66,803	123,055	67,760	73,280	175,618
Lottery retailer incentive - merchandise	67,504	77,032	53,677	95,979	181,420
Agency provided food	21,843	25,608	20,572	18,587	10,691
Miscellaneous expenses	42,705	39,744	31,408	35,859	82,918
Refunds	22,594	1,395	3,595	10,379	3,483
Total Expenditures	\$ <u>199,495,877</u>	<u>239,054,952</u>	<u>230,975,028</u>	<u>205,063,016</u>	<u>233,443,139</u>

## Appendix C

Missouri State Lottery Commission  
 (An Enterprise Fund of the State of Missouri)  
 Statements of Net Position As of June 30, 2020 and 2019

	2020	2019
<b>Current Assets</b>		
Cash and cash equivalents	\$ 52,865,041	65,318,927
Investments held for grand-prize winners	3,791,347	3,404,296
Accounts receivable, net of allowances for returns	66,176,799	52,302,693
Other assets	156,470	249,011
Total current assets	122,989,657	121,274,927
<b>Noncurrent Assets</b>		
<b>Capital assets</b>		
Capital assets not being depreciated	352,973	352,973
Capital assets	13,976,941	13,465,755
Accumulated depreciation	(12,033,358)	(11,525,791)
	2,296,556	2,292,937
Investments held for grand-prize winners	34,344,280	29,039,795
Total noncurrent assets	36,640,836	31,332,732
Total assets	159,630,493	152,607,659
<b>Deferred Outflows</b>		
Deferred Outflows - Pension	4,138,165	5,374,442
Deferred Outflows - OPEB	579,684	358,075
Total Deferred Outflows	4,717,849	5,732,517
<b>Current Liabilities</b>		
Accounts payable	538,259	406,173
Due to Lottery Proceeds Fund	9,449,500	22,732,931
Accrued prize liabilities	94,513,057	84,222,516
Grand-prize winner liabilities	3,794,000	3,474,000
Other accrued liabilities	6,886,248	5,467,523
Total current liabilities	115,181,064	116,303,143
<b>Long-term Liabilities</b>		
Due to Lottery Proceeds Fund	7,338,047	5,126,129
Grand-prize winner liabilities	28,892,198	25,775,933
Net Pension Liability	21,173,650	19,388,641
Net OPEB Liability	7,487,627	7,422,823
Total long-term liabilities	64,891,522	57,713,526
Total liabilities	180,072,586	174,016,669
<b>Deferred Inflows</b>		
Deferred Inflows - Pension	246,039	453,590
Deferred Inflows - OPEB	413,199	300,374
Total deferred inflows	659,238	753,964
<b>Net Position</b>		
Investment in capital assets	2,296,556	2,292,937
Unrestricted	(24,129,467)	(21,917,552)
Restricted for the unrealized gain/loss on investments held for grand-prize winners	5,449,429	3,194,158
Total net position	\$ (16,383,482)	(16,430,457)

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, 2020 and 2019

	2020	2019
Operating Revenues		
Scratchers ticket sales	\$ 1,035,198,988	914,449,548
Draw Game ticket sales	368,228,313	437,528,006
Pull-Tab ticket sales	109,282,738	114,051,149
Total sales	1,512,710,039	1,466,028,703
Other	339,873	173,686
Total operating revenues	1,513,049,912	1,466,202,389
Operating Expenses		
Scratchers prizes	749,489,555	666,811,269
Draw Game prizes	214,611,316	245,716,968
Pull-Tab prizes	98,388,924	102,563,112
Scratchers retailer commissions and incentives	66,178,980	58,564,696
Draw Game retailer commissions and incentives	21,313,367	24,782,552
Pull-Tab retailer commissions and incentives	2,178,505	2,297,603
Cost of tickets sold	26,600,846	27,756,254
Depreciation	963,467	1,004,337
Advertising	4,147,990	15,999,997
Wages and benefits	14,120,451	12,987,593
Other general and administrative	9,284,682	9,618,079
Total operating expenses	1,207,278,083	1,168,102,460
Operating income	305,771,829	298,099,929
Nonoperating Revenues (Expenses)		
Interest income	692,833	907,464
Unclaimed prizes	13,197,121	18,359,576
Gain (Loss) on sale of capital assets	58,408	65,709
Net increase (decrease) in the fair value of investments		
held for grand-prize winners	3,430,771	2,415,701
Amortization of grand-prize winner liability	(1,175,500)	(1,232,986)
Transfers to State of Missouri Lottery Proceeds Fund	(321,928,487)	(319,376,658)
Total nonoperating revenues (expenses)	(305,724,854)	(298,861,194)
Changes in net position	46,975	(761,265)
Total Net Position, Beginning of Year	(16,430,457)	(15,669,192)
Total Net Position, End of Year	\$ (16,383,482)	(16,430,457)

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, 2020 and 2019

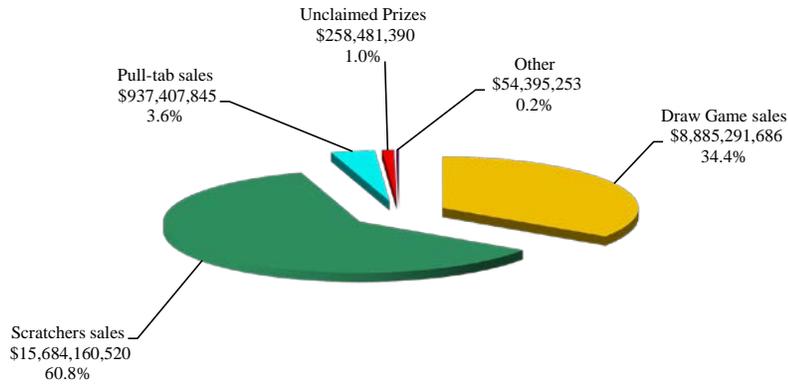
	2020	2019
<b>Cash Flows From Operating Activities</b>		
Cash received from retailers and others	\$ 1,499,455,058	1,467,054,208
Cash paid for prizes	(1,042,436,133)	(991,741,997)
Cash paid for retailer commissions	(88,562,355)	(85,472,309)
Cash paid for employee services	(11,226,421)	(10,764,337)
Cash paid for other expenses	(39,902,190)	(53,524,744)
Net cash provided by operating activities	317,327,959	325,550,821
<b>Cash Flows From Noncapital Financing Activities</b>		
Transfers to State of Missouri	(333,000,000)	(323,000,000)
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of capital assets	(967,086)	(702,765)
Proceeds from sale of capital assets	58,408	65,709
Net cash used for capital and related financing activities	(908,678)	(637,056)
<b>Cash Flows From Investing Activities</b>		
Proceeds from maturity of investments	3,434,000	3,434,000
Interest received	692,833	907,464
Net cash provided by investing activities	4,126,833	4,341,464
Net Increase in Cash and Cash Equivalents	(12,453,886)	6,255,229
Cash and Cash Equivalents, Beginning of Year	65,318,927	59,063,698
Cash and Cash Equivalents, End of Year	52,865,041	65,318,927
<b>Reconciliation of Operating Income to Net Cash Provided by</b>		
<b>Operating Activities</b>		
Operating income	305,771,829	298,099,929
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation	963,467	1,004,337
Noncash pension expense adjustment	2,769,755	2,208,296
Unclaimed prizes	13,197,121	18,359,576
Payments to grand-prize winners	(3,434,000)	(3,434,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(13,874,106)	694,054
(Increase) decrease in other receivables	92,541	50,664
Increase (decrease) in accounts payable and		
other accrued liabilities	1,550,811	144,191
Increase (decrease) in accrued prize liabilities	10,290,541	8,423,774
Net cash provided by operating activities	317,327,959	325,550,821
<b>Noncash Activities</b>		
Net increase (decrease) in the fair value of investments		
held for grand-prize winners	3,430,771	2,415,701
Amortization of grand-prize winner liability	\$ 1,175,500	1,232,986

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

Appendix F

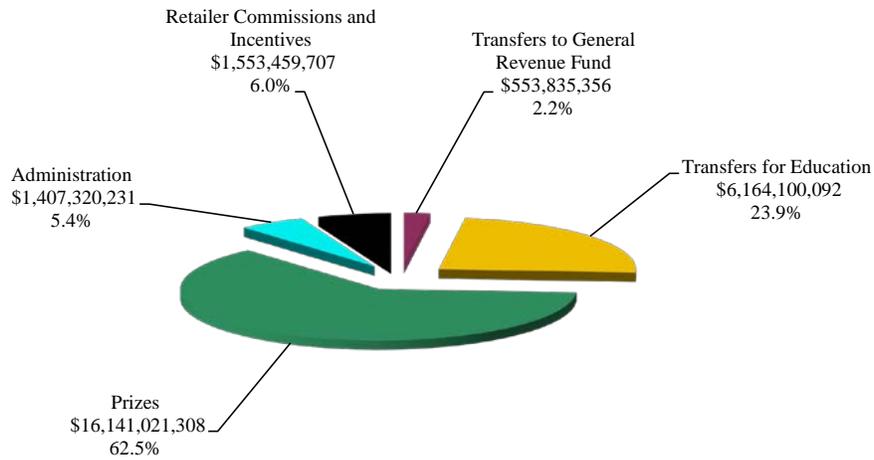
Missouri State Lottery Commission  
Total Revenues and Expenditures  
January 20, 1986 Through June 30, 2020

**Revenues**



Total Revenues: \$25,819,736,694

**Expenditures**

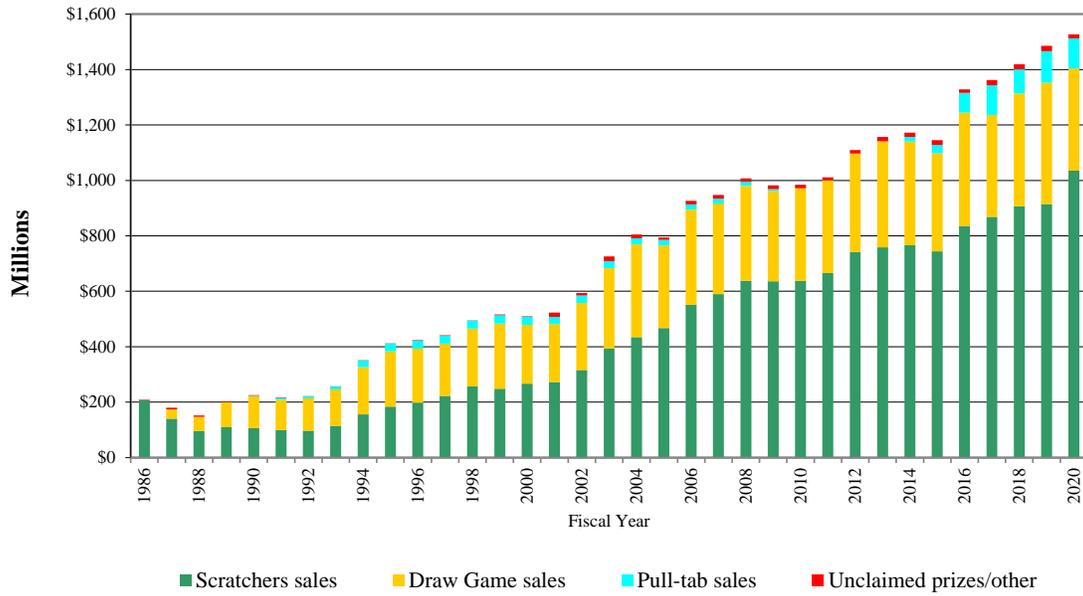


Total Expenditures: \$25,819,736,694

Appendix G

Missouri State Lottery Commission  
 Revenues and Expenditures by Fiscal Year  
 January 20, 1986 Through June 30, 2020

**Revenues**



**Expenditures**

