New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of the Treasury
Division of the State Lottery

July 1, 1996 to March 16, 1998

Richard L. Fair
State Auditor
Enclosed is our report on the audit of the Department of the Treasury, Division of the State Lottery for the period July 1, 1996 to March 16, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
May 14, 1998
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Department of the Treasury  
Division of the State Lottery

**Scope**

We have completed an audit of Department of the Treasury, Division of the State Lottery for the period July 1, 1996 to March 16, 1998. Our audit evaluated the controls over licensing of lottery agents, payments to contract vendors and agent accounts receivables. We also reviewed the credit ratings of the insurance companies through whom annuity contracts are purchased to fund the liability for future installment prize obligations.

The Division of the State Lottery is responsible for promulgating the rules and regulations regarding the conduct of lottery games. Revenues of the agency totaled $2.3 billion during our audit period and the major component of revenue was derived from the sale of various lottery game tickets. Expenditures, including installment prize payments, totaled $1.2 billion, and transfers to the General Fund for aid to education and state institutions totaled $1.2 billion during the audit period.

**Objectives**

The objectives of our audit were to determine whether the internal controls for the selected areas were adequate and functioning.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**

Our audit was conducted in accordance with Governmental Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our tests of internal controls. We also read the budget
message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and internal control structure.

A nonstatistical sampling approach was used. Our samples of agent licensing, payments to contract vendors and agent account receivables were designed to provide conclusions about the adequacy of internal controls. Sample items were judgmentally selected.

**Conclusions**

We found that the internal controls for the licensing of agents, payments to contract vendors and agent accounts receivable were adequate and functioning. We also found that the division, when purchasing annuity contracts for installment prize obligations, seeks out only those insurance companies with credit ratings of at least an A+. The standard ratings are determined by a private rating agency.

**Treasurer’s Response**

I have reviewed the Audit Report of the Department of the Treasury, Division of the State Lottery. I am pleased to note that the audit concludes that the Lottery’s systems of internal control are adequate and functioning.

Your independent observations assures the public that the Lottery’s mission is attained with integrity and compliance with applicable policies and requirements.