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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 27, 2004

The Honorable John Huppenthal, Chair
Joint Legislative Audit Committee

The Honorable Robert Blendu, Vice Chair
Joint Legislative Audit Committee

Dear Representative Huppenthal and Senator Blendu:

Our Office has recently completed a 24-month followup of the Arizona State Lottery Commission regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in June 2002 (Auditor General Report No. 02-02). As the attached grid indicates:

- 12 of the 18 recommendations have been implemented;
- 3 of the 18 recommendations are in the process of being implemented;
- 1 recommendation has not been implemented; and
- 2 recommendations are no longer applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Arizona Lottery's efforts to implement the recommendations resulting from the June 2002 performance audit.

Sincerely,

Debbie Davenport
Auditor General

DKD:jw
Attachment

cc: Ms. Katie Pushor, Executive Director
Arizona State Lottery Commission

ARIZONA STATE LOTTERY COMMISSION
24-Month Follow-Up Report To
Auditor General Report No. 02-02

FINDING I: The Lottery should do more to maximize its sales

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
<p>1. The Lottery should identify the number of retailers who would benefit from having an Instant-Ticket Vending Machine (ITVM), document the financial benefits expected from their utilization, and study the impact of leasing or purchasing ITVMs with varying numbers of ticket bins. It should then request authorization from the Legislature to use monies from the Lottery Fund for additional ITVMs.</p>	<p>Implemented at 24 Months</p>	
<p>2. The Lottery should develop a plan to use pull-tab instant tickets to expand its retailer network and player base. The plan should be submitted to the Lottery Commission for its consideration.</p>	<p>Not Implemented</p>	<p>The status of this recommendation remains the same as its status in the 18-month follow-up report. At that time, although Lottery officials reported they were reviewing an Attorney General opinion, and analyzing the potential revenue and resources required to enter the market, they also noted that they had decided not to pursue this product but to focus on existing product lines instead.</p>
<p>3. The Lottery should follow through on its fiscal year 2003 plan to offer more \$3 and \$5 instant-ticket games and sell instant-ticket games at prices above its current \$5 tickets.</p>	<p>Implemented at 6 Months</p>	

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FINDING I: The Lottery should do more to maximize its sales (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
4. The Lottery should (a) follow through with its plans to subcontract the delivery of instant tickets to retailers through its instant-ticket printing vendor and (b) ensure that such a delivery system includes the ability to track sales and calculate data that helps sales representatives assist retailers.	Implemented at 6 Months	
5. Once it has the new ticket delivery system in place, the Lottery should restructure the duties of its sales representatives to include recruiting new retailers and providing sales support and training to current retailers.	Implemented at 6 Months	
6. To increase retailer sales efforts, the Lottery should continue its efforts to offer game-related retail incentives and expand its retailer incentive program with input from its retailer advisory committee and budget analysts. It should present its plan to the Lottery Commission for consideration.	Implemented at 6 Months	

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FINDING II: The Lottery should improve compliance inspections and underage wagering education and enforcement

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Lottery should improve the management compliance inspections by developing a systematic compliance inspection plan to present to the Commission for its approval.	Implemented at 6 Months	
2. The Lottery should track compliance violations in a database and use it to enhance retailer training and education.	Implemented at 12 Months	
3. The Lottery should develop a comprehensive program to monitor underage wagering for the Lottery Commission’s consideration that includes the following components: <ul style="list-style-type: none"> a. Adding a question to its compliance checklist that directly addresses retailer knowledge of underage laws; b. Placing signs on its online terminals to remind retailers and players about age restrictions; and 	<p style="text-align: center;">Implemented at 6 Months</p> <p style="text-align: center;">Implemented at 6 Months</p>	

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FINDING II: The Lottery should improve compliance inspections and underage wagering education and enforcement (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
<p>c. Adopting policies for retailer training similar to those that the Arizona Department of Liquor Licenses and Controls has established to enforce underage drinking laws. For example, the Lottery should train retailers to check identification on a regular basis, recognize invalid identification cards, and provide retailers with a list of acceptable identification cards.</p>	<p>Implemented at 6 Months</p>	

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FINDING III: Further changes in control procedures would enhance operational improvements made in recent years

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Lottery should directly distribute revenues from the 3-number online game and the bingo-themed instant-ticket game to the Heritage Fund consistent with statutory requirements.	Implemented at 6 Months	
2. The Lottery should supplement its state accounting manual-based procedures with additional accounting procedures for lottery-specific transactions, such as automated weekly revenue collections from retailers.	Implemented at 6 Months	

ARIZONA STATE LOTTERY COMMISSION
24-Month Follow-Up Report To
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SUNSET FACTOR 4: The extent to which rules and regulations promulgated by the Lottery are consistent with the legislative mandate

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
<p>1. The Lottery should adopt rules in four areas:</p> <p>a. The Lottery should develop rules pertaining to the two special economic development games as required by A.R.S. §5-504(H).</p> <p>b. The Lottery should adopt rules to determine fees associated with processing the voluntary assignment of a Lottery prize, such as an annuity, to another party as required under A.R.S. §5-513(A)(3)(c).</p> <p>c. The Lottery needs to adopt rules related to its liability setoff program, as required under A.R.S. §5-525(A).</p>	<p style="text-align: center;">No Longer Applicable¹</p> <p style="text-align: center;">Implementation in Process</p> <p style="text-align: center;">Implementation in Process</p>	

¹ All of the rules recommendations in Sunset Factor Four originated from a review that the Governor’s Regulatory Review Commission (GRRC) conducted at the request of the Auditor General’s Office. Even though GRRC does not have the statutory authority to review and approve rules related to Lottery games, GRRC’s original review noted the absence of a rule pertaining to the economic development games that the Lottery is required to offer each year. (As noted in the audit report, A.R.S. §§41-1044 and 41-1057 grants this authority to the Attorney General’s Office instead of GRRC.) Since its original opinion, GRRC has clarified that a rule is not required as long as the Lottery designates—by rule or by annual order—which two games will benefit the Community and Economic Development Commission. The Lottery accomplishes this through an annual order. Specifically, the Lottery’s executive director approves the two economic development games to be offered each fiscal year, and the Lottery Commission approves the game profiles.

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SUNSET FACTOR 4: The extent to which rules and regulations promulgated by the Lottery are consistent with the legislative mandate (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
d. The Lottery should adopt personnel rules for sales personnel who deliver products, as required under A.R.S. §5-504(E).	No Longer Applicable ²	
2. To conform to A.R.S. §41-1077, the Lottery should amend its license application rules.	Implementation in Process	

² This recommendation referred to a need to develop rules as required by A.R.S. §5-504(E). However, Laws 2004, Chapter 176, §1, which the Governor approved in April 2004, deleted this section from the Lottery's statutes.