

FINANCIAL-COMPLIANCE AUDIT

Montana State Lottery

For the Two Fiscal Years Ended June 30, 2017

MARCH 2018

17-30A

REPORT SUMMARY

In fiscal year 2016, a \$1.5 billion Powerball jackpot contributed to increased ticket sales. In fiscal year 2017, there were no significantly large jackpots. While this resulted in close to a \$7 million decline in on-line sales, Montana State Lottery still provided a \$9 million transfer to the General Fund which was approximately \$3 million less than fiscal year 2016. Net revenue is transferred to the General Fund per state law, §23-7-402, MCA. If net revenue exceeds a certain threshold, the additional amount is transferred to the Office of the Commission of Higher Education for Science, Technology, Engineering, and Math (STEM) scholarships. This threshold was not met in fiscal year 2017.

## Context

The Montana State Lottery (lottery) offers both online and scratch games. Online games currently on sale include multi-state games such as Powerball, Mega Millions, Lucky for Life, and Hot Lotto, as well as state-specific games such as Montana Cash and Montana Millionaire. The lottery also markets an assortment of scratch games, as well as Treasure Play games, that are instant win games. In fiscal year 2017, sales from on-line and scratch games were approximately \$52.4 million and direct costs associated with the sales were approximately \$38.9 million. The lottery transferred \$9.2 million to the state's general fund in fiscal year 2017. Operating income was not sufficient in fiscal year 2017 per state law to require any transfers to the Office of the Commissioner of Higher Education to fund STEM scholarships. The lottery's operating expense, funded from the net proceeds from ticket sales, totaled \$4.4 million in fiscal year 2017.

We focused our audit efforts on sales revenues, direct game costs, and the account balances

associated with these activities as well as pension and other post-employment benefit (OPEB) liabilities. We specifically reviewed: scratch and online ticket revenues; direct game costs such as scratch and online ticket prize expenses, retailer commissions, and vendor fees; the estimated prize liability related to winning tickets sold but not claimed by fiscal year-end; cash and cash equivalents; accounts receivables associated with ticket sales at retailer locations; transfer activity required under state law, and personal services including pensions and OPEB. Throughout the audit, we reviewed the lottery's control systems, and determined compliance with state laws applicable to lottery.

## Results

This report contains no recommendations to lottery and we issued an unmodified opinion meaning you can rely on the information presented on the financial statements and disclosed in the notes.

For a complete copy of the report (17-30A) or for further information, contact the  
Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at  
<http://leg.mt.gov/audit>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).