PERFORMANCE AUDIT
OF THE

BUREAU OF STATE LOTTERY

DEPARTMENT OF TREASURY

November 1998

27-410-97

EXECUTIVE DIGEST

BUREAU OF STATE LOTTERY

INTRODUCTION	This report, issued in November 1998, contains the results of our performance audit* of the Bureau of State Lottery, Department of Treasury.
AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.
BACKGROUND	The Bureau of State Lottery was created by Act 239, P.A. 1972 (Sections 432.1 - 432.47 of the *Michigan Compiled Laws*). As part of a 1991 Statewide reorganization, the Bureau was transferred as an autonomous entity to the Department of Treasury pursuant to Executive Reorganization Order 1991-2. The Bureau is administered by the Commissioner, who is appointed by the Governor with the advice and consent of the Senate. The Bureau's mission* is to generate revenue for the State of Michigan consistent with the public good, to provide quality entertainment to the public, and to maintain the integrity of its games and activities. The Bureau generates revenue by offering on-line games, such as the Big Game, Michigan Lotto, Cash 5, Daily 3 and 4, and Keno, and various instant ticket games. The net income generated

* *See glossary on page 44 for definition.*

by these games is transferred to the State's School Aid Fund.

The Bureau generated record ticket sales of approximately $1.6 billion for fiscal year 1996-97. This resulted in a transfer to the State's School Aid Fund of approximately $586 million. As of September 30, 1997, the Bureau had 182 employees.

AUDIT OBJECTIVES, CONCLUSIONS, AND NOTEWORTHY ACCOMPLISHMENTS

Audit Objective: To assess the Bureau's efforts and methods for evaluating the performance of its professional and technical contractual service providers.

Conclusion: The Bureau's efforts and methods for evaluating contractors provided reasonable assurance that the contractors performed in a satisfactory manner. However, our assessment disclosed a reportable condition* related to the monitoring and evaluation of contractors (Finding 1).

Audit Objective: To evaluate the effectiveness of the Bureau's process for licensing retailers and thereby maintaining the integrity of lottery games and activities.

Conclusion: The Bureau's process for licensing retailers was reasonably effective in maintaining the integrity of lottery games and activities. However, we identified four reportable conditions related to retailer background checks, retailer disciplinary action, the retailer manual, and lottery rules (Findings 2 through 5).

Audit Objective: To evaluate the effectiveness of the Bureau's efforts to maximize sales consistent with the public good.

* *See glossary on page 44 for definition.*

Conclusion: The Bureau's efforts to maximize sales were generally effective. However, we noted three reportable conditions related to retailer sales performance requirements, retailer field support, and ticket switching* policy (Findings 6 through 8).

Noteworthy Accomplishments: For the fiscal year ended September 30, 1997, the Bureau had record sales of approximately $1.6 billion, representing a 12.4% increase over the previous year's sales. These statistics prompted *International Gaming & Wagering Business* (*IGWB*) to name Michigan as the top-performing U.S. lottery for fiscal year 1996-97, one of only two lotteries to achieve a double-digit percentage increase in year-to-year sales growth. *IGWB* also ranked Michigan as one of the more efficient lotteries based on the percentage of government revenue generated from sales dollars.

Audit Objective: To assess the effectiveness of the Bureau's management controls over selected administrative functions.

Conclusion: The Bureau's management controls provided reasonable assurance that its administrative functions were performed in a proper manner. However, our assessment disclosed three reportable conditions related to contractual service procurement, mail receipts, and assignment of functional responsibility codes (Findings 9 through 11).

Audit Objective: To assess the effectiveness of the Bureau's internal control structure* over the automated information systems in ensuring that lottery data was reliably and securely processed.

* *See glossary on page 44 for definition.*

Conclusion: The Bureau's internal control structure over its automated information systems was generally effective in ensuring that lottery data was reliably and securely processed. However, we noted two reportable conditions related to access controls* and physical site security (Findings 12 and 13).

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the program and other records of the Bureau of State Lottery. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit did not include the Bureau's Charitable Gaming Division.

Our methodology included examining the Bureau's records for the period October 1, 1994 through October 31, 1997. Our methodology also included conducting a preliminary survey of the Bureau's operations. We designed tests of the Bureau's operations and performed these tests to meet our audit objectives. The tests included examining contracts and evaluating procedures related to oversight of contractors. Also, we conducted tests of records related to granting licenses to lottery retailers. In addition, we conducted trend analyses of sales, net profits, retailer commissions, and accounts receivable.

AGENCY RESPONSES

Our audit report contains 13 findings and 15 corresponding recommendations. The Bureau agreed with 13 of the recommendations and disagreed with 2 recommendations.

* *See glossary on page 44 for definition.*

Mr. Bill Martin, Commissioner
Bureau of State Lottery
101 East Hillsdale
Lansing, Michigan

Dear Mr. Martin:

This is our report on the performance audit of the Bureau of State Lottery, Department of Treasury.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; an analysis of lottery performance, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

This page left intentionally blank.

TABLE OF CONTENTS

BUREAU OF STATE LOTTERY
DEPARTMENT OF TREASURY

INTRODUCTION

	Page
Executive Digest	1
Report Letter	5
Description of Agency	9
Audit Objectives, Scope, and Methodology and Agency Responses	12

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

Evaluation of Contractual Service Providers	15
1. Monitoring and Evaluation of Contractors	15
Effectiveness of Retailer Licensing Process	16
2. Retailer Background Checks	17
3. Retailer Disciplinary Action	18
4. Retailer Manual	20
5. Lottery Rules	21
Effectiveness of Efforts to Maximize Sales	22
6. Retailer Sales Performance Requirements	24
7. Retailer Field Support	26
8. Ticket Switching Policy	28
Effectiveness of Management Controls	29
9. Contractual Service Procurement	30
10. Mail Receipts	32

11. Assignment of Functional Responsibility Codes 33
Effectiveness of Automated Information Systems 35
12. Access Controls 35
13. Physical Site Security 37

SUPPLEMENTAL INFORMATION

Analysis of Lottery Performance 41

GLOSSARY

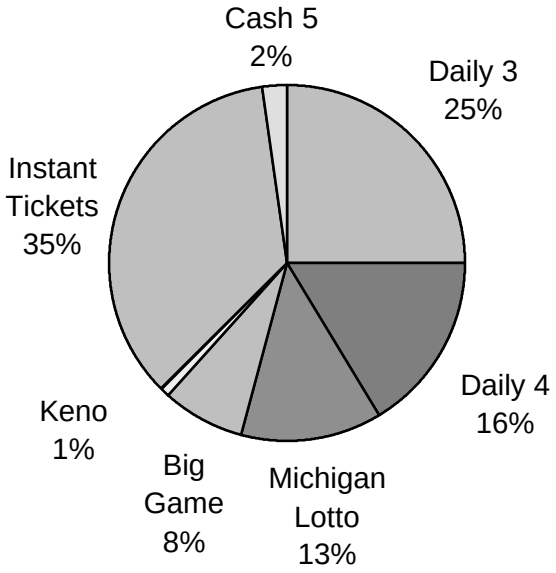
Glossary of Acronyms and Terms 44

Description of Agency

The Bureau of State Lottery was created by Act 239, P.A. 1972 (Sections 432.1 - 432.47 of the *Michigan Compiled Laws*). As part of a 1991 Statewide reorganization, the Bureau was transferred as an autonomous entity to the Department of Treasury pursuant to Executive Reorganization Order 1991-2. The Bureau is administered by the Commissioner, who is appointed by the Governor with the advice and consent of the Senate.

The Bureau's mission is to generate revenue for the State of Michigan consistent with the public good, to provide quality entertainment to the public, and to maintain the integrity of its games and activities. The Bureau generates revenue by offering on-line games, such as the Big Game, Michigan Lotto, Cash 5, Daily 3 and 4, and Keno, and various instant ticket games. The following chart shows the popularity of the daily and instant ticket games:

1997 Product Mix for Gross Lottery Sales



Source: Bureau of State Lottery financial statements for the fiscal year ended September 30, 1997.

The net income generated by these games is transferred to the State's School Aid Fund.

The Bureau is comprised of five divisions: Executive, Administration, Marketing, Operations, and Charitable Gaming. Their responsibilities are as follows:

Executive Division: Responsible for the overall management and operation of the Bureau, including the development of long-range plans, formulation of policy, evaluation of division performance, and compliance with applicable laws and regulations.

Administration Division: Responsible for all housekeeping functions, including budget development, financial reporting, procurement, warehousing, and telecommunications.

Marketing Division: Responsible for developing and executing the annual marketing plan, overseeing the advertising agency, and researching and developing new games and promotions. The Division operates six regional offices located in Bridgeport, Detroit, Lansing, Redford Township, Sterling Heights, and Wyoming.

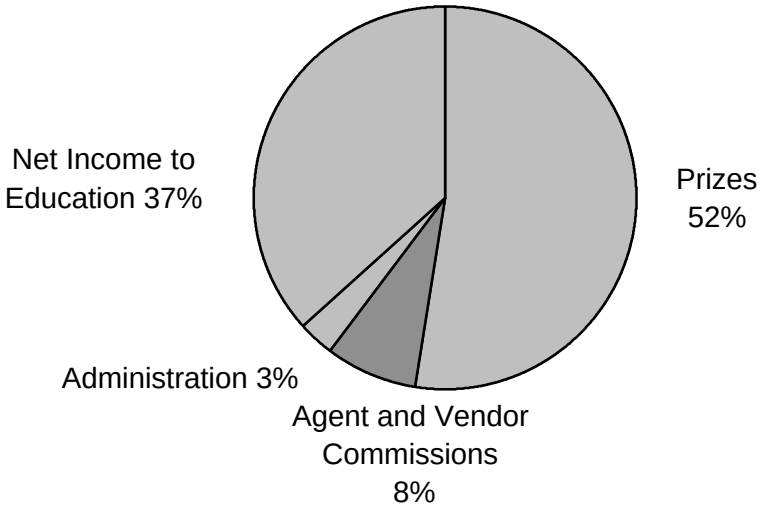
Operations Division: Responsible for planning, testing, and evaluating all on-line games, providing computer support to the Bureau, and licensing and providing support to lottery retailers.

Charitable Gaming Division: Responsible for administering legalized forms of gambling, such as bingos, millionaire parties, and raffles, authorized under Sections 432.101 - 432.120 of the *Michigan Compiled Laws*. The net income generated by this Division is transferred to the State's General Fund.

The Bureau generated record ticket sales of approximately $1.6 billion for fiscal year 1996-97. This resulted in a transfer to the State's School Aid Fund of approximately

$586 million. The accompanying chart presents the percentage distribution of the Bureau's ticket sales revenue for fiscal year 1996-97:

Distribution of 1996-97 Revenue



Source: Bureau of State Lottery financial statements for the fiscal year ended September 30, 1997.

As of September 30, 1997, the Bureau had 182 employees.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of the Bureau of State Lottery, Department of Treasury, had the following objectives:

1. To assess the Bureau's efforts and methods for evaluating the performance of its professional and technical contractual service providers.

2. To evaluate the effectiveness of the Bureau's process for licensing retailers and thereby maintaining the integrity of lottery games and activities.

3. To evaluate the effectiveness of the Bureau's efforts to maximize sales consistent with the public good.

4. To assess the effectiveness of the Bureau's management controls over selected administrative functions.

5. To assess the effectiveness of the Bureau's internal control structure over the automated information systems in ensuring that lottery data was reliably and securely processed.

Audit Scope

Our audit scope was to examine the program and other records of the Bureau of State Lottery. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit did not include the Bureau's Charitable Gaming Division.

Audit Methodology

Our audit procedures were performed between March and November 1997 and included examining the Bureau's records for the period October 1, 1994 through October 31, 1997.

To establish our audit objectives, we conducted a preliminary survey of the Bureau's operations. This included discussions with key Bureau staff regarding their functions and responsibilities, review of program and financial records, and review of Bureau policies and procedures. We obtained and reviewed various states' audit reports and selected national publications related to lottery operations. In addition, we developed a survey requesting input from lottery retailers regarding their association with the Bureau.

To accomplish our audit objectives, we examined the contracts entered into by the Bureau for professional contractual services. We evaluated the records and procedures related to the selection and oversight of these contractors. We compared the Bureau's major gaming contract and request for proposal with selected other states.

We conducted tests of records related to the Bureau's process for granting, denying, and revoking lottery retailers' licenses. We analyzed the awarding of on-line terminals to retailers. We also analyzed the Bureau's establishment and enforcement of its retailer sales performance requirements. We evaluated the assistance provided to retailers by the Bureau's district sales representatives.

We conducted trend analyses of sales, net profits, retailer commissions, and accounts receivable. We reviewed the approval process for contractual service billings. We tested the internal controls related to cash receipts, prize payments, delinquent retailers, and jackpot calculations. We reviewed the control procedures over access to the Bureau's automated information systems and related data and media.

Agency Responses

Our audit report contains 13 findings and 15 corresponding recommendations. The Bureau agreed with 13 of the recommendations and disagreed with 2 recommendations.

The agency preliminary responses to the recommendations in our report were taken from the Bureau's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Bureau to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EVALUATION OF CONTRACTUAL SERVICE PROVIDERS

COMMENT

Audit Objective: To assess the Bureau of State Lottery's efforts and methods for evaluating the performance of its professional and technical contractual service providers.

Conclusion: The Bureau's efforts and methods for evaluating contractors provided reasonable assurance that the contractors performed in a satisfactory manner. However, our assessment disclosed a reportable condition related to the monitoring and evaluation of contractors.

FINDING

1. Monitoring and Evaluation of Contractors

The Bureau had not summarized the results of its monitoring for the on-line gaming and instant ticket printing contractors and had not prepared written final evaluations of the advertising, instant ticket printing, and on-line gaming contractors.

The Bureau contracted with numerous vendors for providing advertising, promotion, television broadcasting, instant ticket printing, instant ticket warehousing and distribution, and on-line gaming services. These contracts ranged in value from approximately $100,000 to $150 million and were in effect from 1 to 10 years.

The Bureau's monitoring of its on-line gaming contractor incorporated state-of-the-art monitoring techniques, including daily sales and terminal reports, magnetic tape audits, and assessment of liquidated damages. However, the Bureau did not always prepare periodic written reports summarizing the results of its contract monitoring. Such summaries would help determine whether expectations

associated with a contracted service were fulfilled in a responsible manner and help disclose opportunities to improve the level of service.

In addition, Department of Management and Budget Administrative Guide procedure 0510.08 requires that the agency contract administrator (1) review, at the time of project completion, the contractor's products, including progress reports, to determine whether all terms of the contract have been met and (2) write post-project reviews and evaluations.

Documentation of the Bureau's monitoring and final evaluations should be maintained to facilitate and support contractor-related decisions. The Bureau believed that formal evaluations were not needed when a vendor performed well.

Considering the sensitivity and financial volume of lottery operations, the Bureau must ensure contractor compliance to maintain the integrity of the Bureau's operations.

RECOMMENDATION

We recommend that the Bureau summarize the results of its monitoring for the on-line gaming and instant ticket printing contractors and prepare written final evaluations of the advertising, instant ticket printing, and on-line gaming contractors.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees that it fully monitors contractors and agrees with this recommendation that a formal written evaluation of contractor performance be completed at the conclusion of each contract and will institute procedures to comply.

EFFECTIVENESS OF RETAILER LICENSING PROCESS

Audit Objective: To evaluate the effectiveness of the Bureau's process for licensing retailers and thereby maintaining the integrity of lottery games and activities.

Conclusion: The Bureau's process for licensing retailers was reasonably effective in maintaining the integrity of lottery games and activities. However, we identified four reportable conditions related to retailer background checks, retailer disciplinary action, the retailer manual, and lottery rules.

FINDING

2. Retailer Background Checks

The Bureau did not conduct periodic criminal background checks to validate retailers' continued licensure eligibility. Also, the Bureau's contract with the retailers did not provide for such periodic criminal background checks.

To determine eligibility upon initial license application, the Bureau conducts complete background reviews on all applicants, including financial credit and general fitness reviews. These background reviews are intended to identify persons whose business relationship with the lottery may pose a financial risk to the Bureau or whose association with the lottery could negatively reflect upon the Bureau's reputation for fairness and integrity. However, the Bureau did not initiate updated general fitness reviews, including criminal background checks, after the processing of the initial application.

The *Michigan Administrative Code* identifies items that would evidence a lack of honesty, integrity, and general fitness, such as convictions for illegal gambling or bookmaking. Good business practice dictates that these items be considered periodically. For example, conducting criminal background checks on applicants only at the time of initial licensure does not ensure continued compliance with the Code.

The Bureau did evaluate information received from the Michigan Liquor Control Commission regarding retailers with liquor-related infractions and from the United States Department of Agriculture regarding retailers with food stamp issues. However, updating criminal background checks would help the Bureau periodically assess the honesty and integrity of persons licensed as lottery retailers and help validate the continued eligibility of lottery retailers.

RECOMMENDATIONS

We recommend that the Bureau conduct periodic criminal background checks to validate retailers' continued licensure eligibility.

We also recommend that the Bureau revise its retailer contract to provide for periodic criminal background checks.

AGENCY PRELIMINARY RESPONSE

The Bureau conducts an extensive background examination of each retailer applicant, including a criminal history check, upon the retailer's initial licensing. Thereafter, the Bureau monitors its retailers by networking with other State and federal law enforcement and licensing agencies, as well as State and federal courts, for possible criminal violations. Also, the Bureau investigates player complaints about licensed lottery locations.

There is no dispute that existing retailer contracts do not allow for periodic criminal history checks without independent probable cause. The Bureau agrees that periodic criminal history checks following initial licensure could result in discovery of information implicating the integrity of individual retailers which might otherwise go undetected. However, the Bureau questions the wisdom of such an approach for two reasons. First, the Bureau questions the cost-effectiveness of this approach. The marginal benefit which might flow from subsequent investigations is speculative at best. Second, there is the important legal question of whether post-licensing checks may be conducted without probable cause. The Bureau will seek an opinion on this issue from the Attorney General.

FINDING

3. Retailer Disciplinary Action

The Bureau did not sufficiently document Commissioner-retailer disciplinary conferences.

Retailer violations occur when retailers fail to abide by the Lottery Act, Lottery Rules, or regulations; retailer contracts; and/or Bureau directives and communications. These violations include criminal activity, such as the sale of

controlled substances, embezzlement, and counterfeiting, and financial delinquencies, such as negotiating not sufficient funds checks, uncollectible accounts, and unpaid settlements. To address such violations, the Commissioner has various enforcement powers available at his discretion, including probation, suspension, or revocation of retailers' licenses.

When a retailer's violation warrants contract cancellation or license revocation, the retailer can request a conference with the Commissioner. At the conference, which is attended by the retailer and two Bureau personnel, the alleged violation is reviewed with the retailer. Also, the retailer has the opportunity to refute the violation or to explain the reasons for the violation. After the conference, the Commissioner can (1) place the retailer on probation, (2) cancel the retailer's on-line terminal contract, or (3) cancel the retailer's on-line terminal contract and revoke the retailer's lottery license.

Our review noted that documentation either did not exist or was not sufficient to support actions taken at these conferences. Therefore, we could not determine the propriety of actions taken. For example, one retailer's license was suspended with intent to revoke within 30 days because the retailer was cited for violations on two occasions by the Michigan Liquor Control Commission. After the conference with the Commissioner, the retailer was allowed to retain his lottery license, but the documentation did not provide rationale for the decision.

In addition to justifying action taken at the conferences, sufficient documentation helps ensure that retailers receive uniform and consistent treatment for disciplinary issues. Sometimes it appeared that disciplinary action taken for some retailers deviated from disciplinary action taken for other retailers with similar circumstances. When this occurs, it is imperative that the actions taken be documented to justify such deviations.

RECOMMENDATION

We recommend that the Bureau sufficiently document Commissioner-retailer disciplinary conferences.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with the finding that there are advantages to sufficient documentation of retailer conferences. In 1995, the Lottery Commissioner instituted a requirement that at least two Bureau personnel be present for all retailer disciplinary conferences. Written records have always been kept of all conferences, but procedures have been changed to ensure that records are more complete.

FINDING

4. Retailer Manual

The Bureau had not provided the retailers with an updated Michigan Lottery Retailer Manual that contained accurate, current, and pertinent policies and procedures related to retailer operations.

Policies and procedures define duties; establish responsibility and authority; clarify operations; provide for continuity, consistency, and uniform performance; and help to eliminate errors. Communication of accurate information provides retailers with a framework for evaluation and other decision making applications.

The Bureau had not provided the retailers with updated Michigan Lottery Retailer Manuals even though significant changes occurred in September 1995. These changes involved many instant game functions, such as the purchasing of instant tickets. Recommendations presented by the Instant Ticket Distribution Committee emphasized that well-written procedures should be distributed to all retailers prior to the activation of the new system. In addition, the Bureau implemented additional changes, some related to on-line terminal allocation, but had not yet communicated them to the retailers. We were subsequently informed that the Bureau had supplied instant ticket terminal and on-line terminal reference cards to retailers which may include instructions for specific activities. However, these reference cards are not all inclusive.

Retailers need a clear, accurate picture of how terminals are allocated and how other retailer processes work so that they may operate effectively and efficiently.

RECOMMENDATION

We recommend that the Bureau provide retailers with an updated Michigan Lottery Retailer Manual that contains accurate, current, and pertinent policies and procedures related to retailer operations.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees that the Michigan Lottery Retailer Manual is out of date. The Bureau has on-line communication, monthly publications, special meetings, and special mailings for retailers. Retailers are apprised of changes in games, policies, and programs through the monthly lottery retailer publication, periodic special mailings tied to new games, and on-line messages. The Bureau will further develop these means of communication as an alternative to the expensive and cumbersome published retailer manual.

FINDING

5. Lottery Rules

The Bureau implemented policies and procedures that did not conform with the Lottery Rules as contained in the *Michigan Administrative Code*.

The retailer contract and the Michigan Lottery Retailer Manual require the retailer to follow the Lottery Rules, which are contained in the *Michigan Administrative Code*. Inconsistencies between the *Michigan Administrative Code* and the Bureau's policies and procedures could lead to differential treatment of retailers, confusion among retailers, and actions contrary to the *Michigan Administrative Code*.

For example, the stolen ticket refund process in effect during our audit fieldwork was not in accordance with *Michigan Administrative Code* R 432.12. The Code states that the Bureau shall refund to retailers the amount paid to the Bureau for stolen tickets. With the implementation of the new instant ticket management and distribution system, the Bureau provides tickets to the retailers on a consignment basis. Thus, the retailers do not have to pay for tickets until 45 days after their activation or when 90% of the low tier winners have been claimed.

When tickets are stolen, the Bureau charges for all tickets and issues refunds only for those tickets not yet activated and after specific processes are followed. The Michigan Lottery Retailer Manual does not describe the refund process to the retailers. In lieu of specific refund information, the retailers may expect to receive refunds for all instances of stolen tickets.

RECOMMENDATION

We recommend that the Bureau ensure that its policies and procedures conform with the Lottery Rules as contained in the *Michigan Administrative Code*.

AGENCY PRELIMINARY RESPONSE

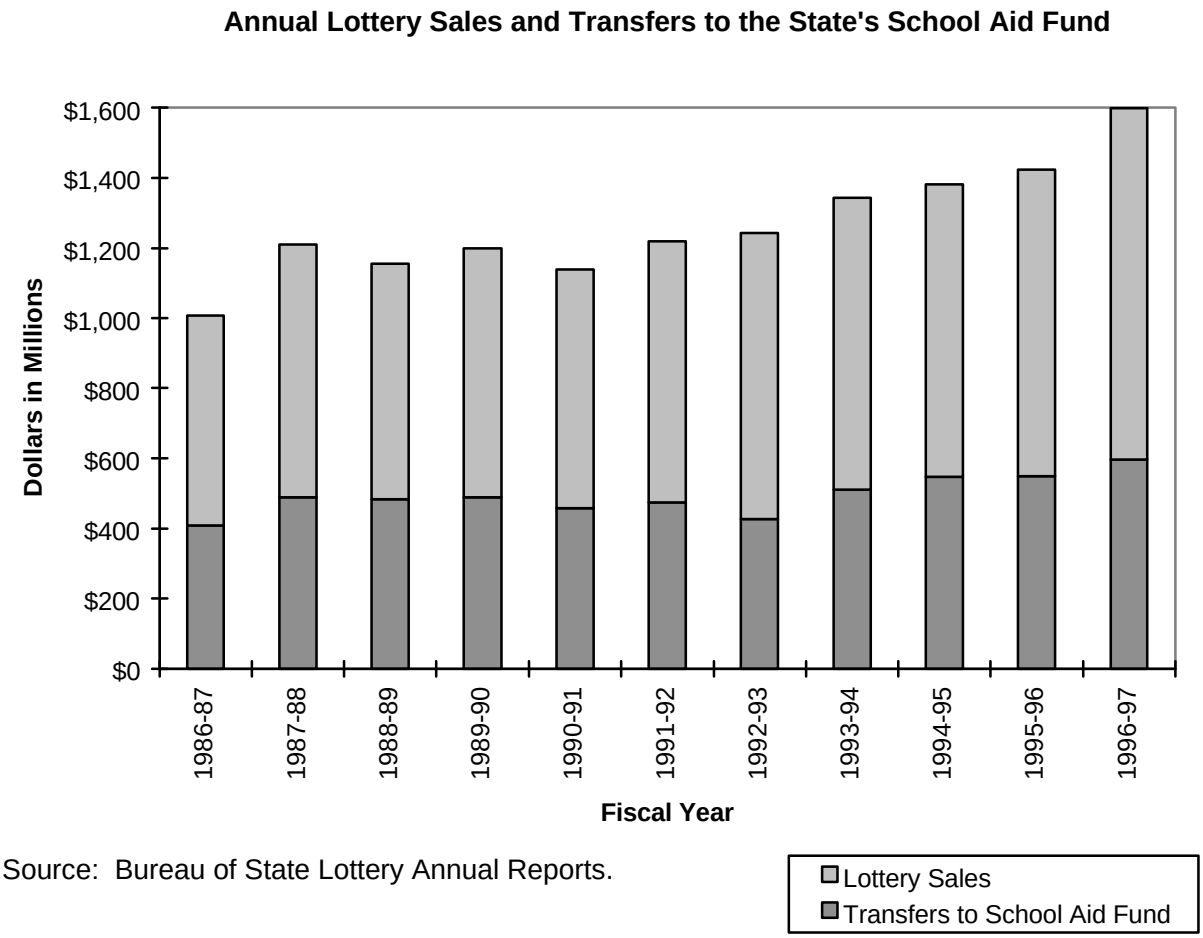
The Bureau agrees that the stolen ticket refund process has not always been implemented in accordance with the provisions of *Michigan Administrative Code* R 432.12. In response to this recommendation, the Bureau instituted new procedures, effective December 1, 1997, to clarify the process for evaluating claims for stolen ticket credits.

EFFECTIVENESS OF EFFORTS TO MAXIMIZE SALES

Audit Objective: To evaluate the effectiveness of the Bureau's efforts to maximize sales consistent with the public good.

Conclusion: The Bureau's efforts to maximize sales were generally effective. However, we noted three reportable conditions related to retailer sales performance requirements, retailer field support, and ticket switching policy.

Noteworthy Accomplishments: As shown in the following chart, the Bureau had record sales of approximately $1.6 billion for the fiscal year ended September 30, 1997. These sales represent a 12.4% increase over the previous year's sales.



Source: Bureau of State Lottery Annual Reports.

These statistics prompted *International Gaming & Wagering Business* (*IGWB*) to name Michigan as the top-performing U.S. lottery for fiscal year 1996-97, one of only two lotteries to achieve a double-digit percentage increase in year-to-year sales growth. *IGWB* also ranked Michigan as one of the more efficient lotteries based on the percentage of government revenue generated from sales dollars (see analysis of lottery performance, presented as supplemental information).

During fiscal year 1996-97, 36 states and the District of Columbia operated lotteries. Michigan was one of the 14 states that had sales in excess of $1.0 billion. Twenty-nine (78%) of the 37 lotteries had either a lottery commission or a board to oversee the lottery's operation. As supplemental information, we have prepared an analysis of data presented by *IGWB* that summarizes these and other statistics from all 37 lotteries.

FINDING

6. Retailer Sales Performance Requirements

The Bureau's enforcement of its retailer sales performance requirements did not conform with the *Michigan Administrative Code*.

The Bureau has licensed over 9,000 retailers to sell lottery products. Because of computer software and hardware limitations, the Bureau has only about 6,500 on-line terminals to allocate to these retailers. With a limited number of on-line terminals available, the Bureau established sales performance requirements to maximize net revenues and to assist with terminal allocation. *Michigan Administrative Code* R 432.37(2)(d) requires the Commissioner to establish fees for retailers whose average weekly on-line game sales fall below the minimum sales performance requirements established under the provisions of R 432.36. The Michigan Lottery Retailer Manual states that retailers who do not pay their low sales performance fees will have their terminals deactivated and their equipment removed. The sales performance requirements are described to retailers in the lottery license application packet, in the Michigan Lottery Retailer Manual, and upon offering of an on-line terminal.

At the time of our audit, the low sales performance fee was equal to the difference between the minimum annual sales requirement ($62,400) and the retailer's total annual sales. Per *Michigan Administrative Code* R 432.37(2)(d), the maximum low sales performance fee that can be assessed is $200 per week or $10,400 per year. The Bureau's maximum sales performance fee exceeds this amount by $52,000 per year.

Retailers who do not meet the sales performance requirements are notified by the Bureau immediately after the end of the calendar year and are invoiced the amount of the low sales performance fee. The Michigan Lottery Retailer Manual states that failure to pay the full amount of the fee within 30 calendar days will result in cancellation of the on-line contract and removal of all on-line lottery equipment from the retailer's business. Sales performance requirements are essential because the Bureau incurs phone line, sales staff, and other operational costs for all its retailers, including those who fail to meet the minimum sales performance requirements. Also, each low sales retailer uses one of the Bureau's

limited number of on-line terminals, which could be assigned to another retailer with a higher sales potential.

During 1995 and 1996, the Bureau has granted approximately 180 automatic low sales performance fee waivers for selected retailers and granted approximately 75 waivers for other retailers upon request. In fact, the Bureau has not collected any low sales performance fees since 1994. For example, in 1996, the Bureau granted automatic waivers for those retailers meeting one of the following criteria:

a. Retailers with low sales performance fees of less than $6,000.

b. Retailers whose 1996 sales represented a 50% increase over 1995 sales.

c. Retailers who had less than 52 weeks of sales for 1996.

d. Retailers in the Upper Peninsula (who received a 25% reduction in their minimum annual sales requirement).

We recognize that some of the preceding criteria represent legitimate reasons for waiving selected retailers' low sales performance fees. However, the automatic waiving of low sales performance fees and the granting of waivers to many retailers who request them hamper the transfer of on-line terminals from under-performing retailers to potentially productive retailers. In addition, waiving the fees conflicts with the administrative requirements of the Code and the Bureau's own policy, jeopardizes the integrity of management controls, and reduces the amount of low sales performance fee revenue collected by the Bureau.

The establishment of graduated retailer sales performance requirements, which incorporate various sales incentive criteria, may more effectively increase retailer sales to desired sales levels.

RECOMMENDATION

We recommend that the Bureau either enforce its retailer sales performance requirements in accordance with the *Michigan Administrative Code* or initiate amendments to the *Michigan Administrative Code* allowing the Bureau to

implement graduated sales performance requirements that will encourage retailers to achieve their maximum sales potential.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees that the policy on retailer sales performance was not in complete compliance with Lottery Rules and has already made the necessary revisions. Bureau policy regarding retailer low sales fees reflects its best efforts to balance both the mandate to maximize net revenue as well as to make its products available for players throughout the State.

FINDING

7. Retailer Field Support

The Bureau had not sufficiently analyzed the effectiveness of its district sales representatives (DSRs).

The DSR function provides field support to the lottery retailers by assisting with the marketing of lottery products. Specifically, the DSRs periodically visit retailer locations; assist retailers with merchandising lottery games; and provide retailers with game selection advice, sales performance information, and promotional and informational materials.

The Bureau successfully developed an automated call report system for monitoring DSR activity. However, the Bureau primarily used this system to monitor the number and length of DSR retailer visits. In addition, the Bureau prepares agent sales reports which show retailer sales by region, district, and chain on an annual, quarterly, and year-to-date basis.

With the appropriate analyses, the DSRs could more effectively target retailers with declining or low sales to offer direction and assistance. Conversely, the DSRs could more effectively identify the types of retailers who are most successful in selling lottery products and most receptive to promotional activities suggested by the Bureau. This information could be used to identify those retailers with the most potential for success in selling lottery products.

The DSRs gave priority to visiting all on-line retailers. As a result, most retailers who sold only instant tickets received little field support. One of the roles of the DSRs is to help the retailers make effective use of point-of-sale materials provided by the Bureau. Point-of-sale materials represented approximately 25% of the Bureau's advertising budget for fiscal year 1995-96. Approximately 30% of these materials went to retailers who were not on-line and, thus, did not receive assistance from the DSRs in deploying the materials.

Our limited survey of retailers disclosed that 45 (80%) of the 56 responding retailers felt that the services provided by the DSRs were valuable to their lottery operations. The retailers are the Bureau's link to its players. The analysis of retailer information would help the Bureau align field support staff for specific criteria, implement retailer visitation schedules that would produce incremental increases in revenues, and obtain the most effective results from DSR contacts.

Subsequent to our audit fieldwork, the Bureau provided documentation which indicates that the Bureau has begun to analyze the DSR function. The Bureau informed us that these analyses have resulted in a prioritization of retailer visitation schedules and in adjustments to the size and alignment of the DSR sales force.

RECOMMENDATION

We recommend that the Bureau continue to analyze the effectiveness of its DSRs.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees that it analyzes the effectiveness of its DSRs. This ongoing process of compilation and analysis has been underway since 1995 and has resulted in modifications designed to increase the efficiency and effectiveness of lottery staff and retailers. As the survey noted, 80% of the surveyed lottery retailers felt that the DSRs provide a valuable service.

The Bureau's analysis will continue to review the support provided to lottery retailers by DSRs, including in-store and chainwide promotions, the use of point-of-sale materials, retailer employee incentives, and effective linking with ongoing lottery advertising.

Based on this recommendation, the Bureau will continue to analyze the effectiveness of its DSRs.

FINDING

8. Ticket Switching Policy

The Bureau had not developed a comprehensive, written policy identifying the guidelines and specific penalties for ticket switching* .

The Bureau has a limited number of on-line terminals. The available on-line terminals are assigned monthly to retailers based on instant ticket sales for the prior three months. Those retailers with the highest instant ticket sales during the three-month period under review are offered an on-line terminal. To increase their chances of obtaining an on-line terminal, some retailers have initiated a practice known as "ticket switching." The practice of ticket switching involves purchasing and activating tickets at one location but selling the tickets at other locations. This practice enables retailers to present an appearance that a location has higher than actual ticket sales, which creates an advantage for the retailer in the on-line terminal allocation process.

Section 432.23(5) of the *Michigan Compiled Laws* states that a licensed retailer may sell lottery tickets only at the premises stated on the license. Effective July 1, 1996, a licensed retailer who violates this section is, at the Commissioner's discretion, subject to one or more of the following: (a) probation for not more than two years, (b) a fine of not more than $1,000, and/or (c) removal of his/her lottery terminal. Also, *Michigan Administrative Code* R 432.13(1) states that tickets shall be sold only on the premises at the specific location named in the license. Additionally, the Bureau warns retailers about ticket switching in the retailer handbook and in a handout entitled "Michigan Lottery Retailer Information."

Lacking formalized and specific guidance on actions to be initiated, retailers that engage in ticket switching could inappropriately receive one of the limited number of on-line terminals.

* *See glossary on page 44 for definition.*

Instituting a formalized policy will help management safeguard against the appearance of impropriety and reduce the likelihood of confusion or inconsistencies in practice.

RECOMMENDATION

We recommend that the Bureau develop a comprehensive, written policy identifying the guidelines and specific penalties for ticket switching.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with this recommendation and has already formalized written procedures on ticket switching.

The finding correctly notes that a few retailers engage in a practice known as "ticket switching" for purposes of increasing their chances of being assigned an on-line terminal. The Bureau's policy is to not allow any retailers to benefit from circumvention of the terminal allocation process. In addition, the Bureau uses the tools granted in the Lottery Act (probation, fines, or revocation) to enforce this policy.

EFFECTIVENESS OF MANAGEMENT CONTROLS

COMMENT

Audit Objective: To assess the effectiveness of the Bureau's management controls over selected administrative functions.

Conclusion: The Bureau's management controls provided reasonable assurance that its administrative functions were performed in a proper manner. However, our assessment disclosed three reportable conditions related to contractual service procurement, mail receipts, and assignment of functional responsibility codes.

FINDING

9. Contractual Service Procurement

The Bureau's contractual service procurement process was not successful in obtaining proposed vendor commission rates for its game-related services contract that were consistent with rates obtained by other states.

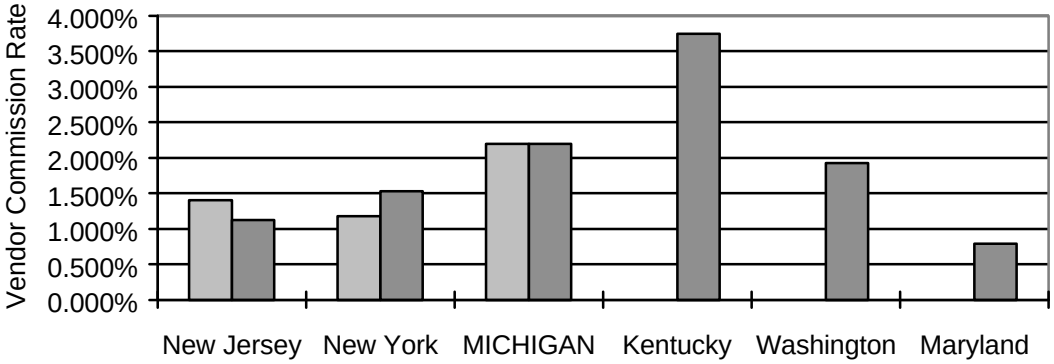
The Bureau's contract with its game-related services vendor expires at the beginning of 1999. Therefore, during our audit fieldwork, the Bureau designed and distributed a request for proposal (RFP) in an attempt to secure a new multiyear contract for the provision of game-related services. This RFP included operation of the on-line gaming system, operation and validation of instant tickets, warehousing and distribution of instant tickets, and limited telemarketing.

While developing the RFP, the Bureau decided to combine all these services into a single contract instead of negotiating several smaller, more specialized contracts. It was the Bureau's hope that this arrangement would lower overall costs and increase administrative efficiency. Michigan's RFP included several innovative concepts to encourage vendors to submit proposals. These concepts included: (1) generous implementation timelines, (2) lower bonding requirements, (3) no previous North American experience requirement, and (4) lenient overall experience requirements. However, only the incumbent contractor submitted a proposal.

We reviewed the RFP process for 5 states that had recently entered into contracts to operate their game-related operations. Two of these states had higher annual sales than Michigan, and 3 had lower annual sales. Our review disclosed that none of the states' contracts were completely comparable in all aspects. However,

Michigan's proposed vendor commission rate of 2.195% of both on-line and instant ticket sales was higher than 4 of the 5 states that we reviewed:

Comparison of Michigan's Proposed Vendor Commission Rates With Other States' 1997 Vendor Commission Rates



Source: State Vendor Contracts or RFPs.

Commission rates for instant tickets
Commission rates for on-line tickets

Based on Michigan's projected on-line ticket sales for a five-year period, these 4 states' savings ranged from approximately $17.6 million to $90.8 million over Michigan's proposed vendor commission rates. Only 2 of the 5 states contracted for instant ticket warehousing and distribution. Their projected five-year savings for the warehousing and distribution of instant tickets were approximately $27.7 million and $35.3 million over Michigan's proposed vendor commission rates.

RECOMMENDATION

We recommend that the Bureau further attempt to obtain competitive vendor commission rates for its game-related services contract by negotiating commission rate reductions with the vendor that are equal to or better than those rates obtained by other states.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with this recommendation and has already negotiated contract price concessions which will save over $73 million during the life of the gaming system contract. These negotiations were underway during the audit fieldwork. The contract was approved by the State Administrative Board, and the new system is currently being implemented.

The RFP process worked well for the Michigan Lottery. As one industry observer noted:

> Creating an on-line RFP is not a trivial exercise, as the audit report reveals. The MBSL [Michigan Bureau of State Lottery] invested significant time and effort to pursue the best balance of all factors. While only one bid was received, we believe this is more a matter of the vendors' readiness or business strategy than of the MBSL RFP. Through capable negotiations, the MBSL will be operating its on-line gaming system under a favorably priced contract from a skilled supplier.

FINDING

10. Mail Receipts

The Bureau had weak internal controls over the receipt and deposit of payments received through the mail.

During our audit period, annual mail receipts totaled approximately $18 million. Approximately 90% of the receipts are payments from lottery retailers with the remaining 10% attributable to the Charitable Gaming Division. About $15 million was sent directly to the Bureau's Lansing office with approximately $3 million received at the regional offices.

Our review of the Bureau's mail opening and recording procedures at the Lansing office and two regional offices disclosed the following weaknesses:

a. At the Lansing office, mail was distributed to various locations for only one employee to open at each site.

b. Bureau staff did not restrictively endorse checks immediately upon receipt. The Bureau's cash procedure requires that staff restrictively endorse checks when the mail is opened.

c. Bureau staff did not immediately record receipts in a control log as the mail was opened.

d. The regional offices did not deposit the receipts in a timely manner. Regional office staff held the receipts until the weekly pickup by the Lansing office.

e. All Lansing office employees involved with the cash receipts process had access to the computerized cash posting functions.

Proper internal controls require that the mail be opened, recorded, and deposited under controlled conditions so that the complete control of receipts is not entrusted to any one employee.

RECOMMENDATION

We recommend that the Bureau strengthen its internal controls over the receipt and deposit of payments received through the mail.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with this recommendation and has changed its policy of internal control over mail receipts effective November 17, 1997.

FINDING

11. Assignment of Functional Responsibility Codes

The Bureau assigned incompatible functional responsibility codes (user classes) to its accounting system users. As a result, the effectiveness of the Bureau's internal control structure was diminished.

The Michigan Administrative Information Network (MAIN) is the Statewide financial management system implemented in fiscal year 1994-95. MAIN uses two component systems: one for accounting and another for purchasing. These

component systems are the Relational Standard Accounting and Reporting System (R*STARS) and the Advanced Purchasing and Inventory Control System (ADPICS).

The ability to perform various accounting functions in R*STARS is controlled by user classes. R*STARS users are assigned user classes by their direct supervisor based on the job specifications of their current position. Incompatible user classes result when a combination of assigned user classes gives a single user the ability to enter, post, correct, and release transactions in R*STARS. User classes should be assigned so that an employee does not have the ability to process and also release transactions, thus helping to prevent the processing of unauthorized transactions.

Our audit disclosed that 6 of the Bureau's 13 users were assigned incompatible user classes. For these 6 individuals, we identified 54 instances of incompatible user classes. In addition, the Bureau had not utilized R*STARS security reports to monitor users' capabilities. We were informed that the agency security administrator was unaware of the availability of such reports. One of the responsibilities of the agency security administrator is to approve the assignment of multiple user classes and to ensure that the Bureau avoids the use of incompatible user class combinations.

Section 3.1 of the MAIN Financial Administration and Control System Security Manual states that the agency is responsible for maintaining appropriate separation of duties to achieve effective internal controls. This responsibility includes gaining a thorough understanding of the functions of users prior to the assignment of user classes. Such an understanding can be accomplished by performing a review of agency operations. However, the absence of an effective internal audit function impaired the Bureau's ability to detect internal control weaknesses in a timely manner. Whenever large amounts of money are received from the public, extraordinary standards of accounting and disclosure apply.

RECOMMENDATIONS

We recommend that the Bureau assign its accounting system users functional responsibility codes that would help maintain an effective internal control structure.

We also recommend that the Bureau eliminate incompatible functional responsibility codes from R*STARS in a timely manner.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with these recommendations and informed us that it has made the changes regarding functional responsibility codes.

EFFECTIVENESS OF AUTOMATED INFORMATION SYSTEMS

COMMENT

Audit Objective: To assess the effectiveness of the Bureau's internal control structure over the automated information systems in ensuring that lottery data was reliably and securely processed.

Conclusion: The Bureau's internal control structure over its automated information systems was generally effective in ensuring that lottery data was reliably and securely processed. However, we noted two reportable conditions related to access controls and physical site security.

FINDING

12. Access Controls

The Bureau had not established effective control procedures to help prevent unauthorized persons from accessing and using its automated information systems.

Control procedures help ensure that only authorized users access or change data. Our review of the Bureau's automated information systems' access controls disclosed:

a. The Bureau did not restrict users' access capabilities to effectively maintain a proper separation of duties. For example, Licensing Section users could access screens used by the Security and Investigations Section and the Fund Accounting Section to provide important information concerning applicants.

The Licensing Section determines whether applicants are eligible for licensing based on input from the Security and Investigations Section and the Fund Accounting Section. In addition, the Bureau did not restrict access to the licensing data base. Some individuals, including computer programmers, had update capability for some screens in the licensing data base.

Separating the capabilities or monitoring the activities of users helps reduce the risk of unauthorized entries. Also, limiting access to the licensing data base would help reduce the risk of processing unauthorized transactions.

b. The Bureau did not require users to periodically change their passwords. Changing passwords on a regular basis helps ensure password confidentiality and reduces the risk of unauthorized access to the systems.

c. The Bureau's operating system did not prevent those persons who had passwords with fewer than four characters from accessing the system. An individual attempting to gain unauthorized access to the system could more easily compromise passwords with fewer than four characters.

d. The Bureau's terminals did not automatically disconnect after a reasonable period of inactivity. This could result in unauthorized access. Department of Management and Budget Administrative Guide procedure 1310.02 requires that terminals automatically log off if left unattended for a specified period of time.

e. The Bureau's systems did not produce reports that would detect errors or irregularities in the input and unauthorized changes to the application data base. Such reports help ensure the accuracy and propriety of information processed. Thus, the Bureau could be relying on inaccurate or incomplete information when deciding to license a retailer.

RECOMMENDATION

We recommend that the Bureau establish effective control procedures to help prevent unauthorized persons from accessing and using its automated information systems.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with this recommendation and informed us that it has revised access control procedures to comply. The Bureau also informed us that its employees are provided access to the automated information systems only as needed and that update capability is strictly limited.

FINDING

13. Physical Site Security

The Bureau had weak control procedures over access to its computer hardware facility and related data and media.

Proper physical site controls help prevent unauthorized persons from gaining access to computer resources and data. Department of Management and Budget Administrative Guide procedure 1310.02 provides procedures to secure and protect State information processing facilities, data and media, software, hardware, and personnel. Our review disclosed the following security weaknesses:

a. The Bureau had not restricted access to the computer room to only operations personnel. Also, the Bureau allowed computer room access to general service and retailer service staff and to executive office staff who did not have a need for access.

   Proper computer room access controls require that the Bureau limit or monitor access to help prevent the unauthorized use of the computer system.

b. The Bureau had not secured the computer library room from unauthorized access. The library did have card key access to limit those individuals who could enter; however, the door was defective and did not close properly. Thus, 24-hour access to the tape storage room was attainable. Also, State employees not associated with the Bureau occupied the same floor as the library. With this unlimited access to the library, the loss or destruction of valuable data could occur. We were subsequently informed that the Bureau had reported this problem to the Department of Management and Budget on three separate occasions before the door was repaired.

c. The Bureau had not maintained documentation of periodic inventories taken of its computer tape files. Proper controls require that a periodic inventory of the tape files be performed and documented to ensure the accuracy of the tape records.

RECOMMENDATION

We recommend that the Bureau strengthen its control procedures over access to its computer hardware facility and related data and media.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees that it is important to limit access to the computer operations room as much as possible and informed us that it has reduced access to only the most essential employees. A second log process has been implemented, in addition to the existing electronic security access card system.

The Bureau also agrees and will work with the Department of Management and Budget on improved response to facility needs.

The Bureau informed us that it conducted regular inventories of tape files but further agrees it had not maintained adequate documentation. The Bureau stated that procedures have been enacted to ensure that proper documentation is retained.

SUPPLEMENTAL INFORMATION

THIS PAGE INTENTIONALLY BLANK

Analysis of Lottery Performance

There are several measures for evaluating a lottery's performance. The more useful of these measures is a lottery's effectiveness (the ability of a lottery to penetrate the market) and efficiency (the amount of government revenue generated from lottery activities). According to *International Gaming & Wagering Business* (*IGWB*), lottery effectiveness is measured by the percentage of personal income extracted by lottery sales. Within the following table, column (4) is representative of a lottery effectiveness measure.

Lottery efficiency is different from lottery effectiveness because efficiency does not necessarily correlate to sales. Again, according to *IGWB*, how a lottery conducts its business operations determines how efficient it is at generating revenue from sales. Within the following table, columns (5), (6), (7), and (8) are representative of lottery efficiency measures. As shown in columns (6) and (7), *IGWB* has ranked the Michigan Lottery as one of the more efficient lotteries.

IGWB continued to commend the Bureau in its April 1998 issue by stating:

> It is very difficult for a lottery to maintain impressive rankings by all measures. Those that have reached the delicate balance between the often opposing forces of effectiveness and efficiency are to be commended. In fiscal 1997, only Maryland, Michigan, and New York made the top ten on all lists.

ANALYSIS OF LOTTERY PERFORMANCE
For the Fiscal Year Ended September 30, 1996

	(1) Governing Board or Commission (A)	(2) Total Ticket Sales (B)		(3) Total Government Revenue (B)(C)		(4) Sales as a Percent of State Personal Income (B)	
Arizona	YES	$ 258,836,100	(28)	$ 84,903,500	(26)	0.278%	(35)
California	YES	2,292,324,933	(5)	841,880,611	(3)	0.284%	(33)
Colorado	YES	331,351,344	(26)	91,372,306	(23)	0.348%	(27)
Connecticut	YES	706,950,208	(17)	238,625,182	(15)	0.645%	(14)
Delaware	NO	1,007,033,106	(14)	64,283,976	(28)	5.048%	(7)
District of Columbia	NO	210,620,000	(29)	75,250,000	(27)	1.100%	(1)
Florida	YES	2,061,484,000	(6)	817,460,000	(4)	0.594%	(17)
Georgia	YES	1,591,892,000	(8)	544,855,000	(11)	0.940%	(8)
Idaho	YES	91,162,150	(34)	19,842,457	(36)	0.387%	(26)
Illinois	YES	1,582,769,640	(10)	604,544,200	(9)	0.503%	(23)
Indiana	YES	621,315,541	(18)	187,802,397	(16)	0.476%	(24)
Iowa	YES	190,004,182	(30)	51,062,785	(31)	0.302%	(32)
Kansas	YES	182,113,628	(31)	56,935,753	(30)	0.308%	(31)
Kentucky	YES	542,845,000	(19)	153,515,000	(17)	0.699%	(12)
Louisiana	YES	289,223,022	(27)	104,650,512	(21)	0.336%	(29)
Maine	YES	148,689,703	(33)	39,374,737	(33)	0.568%	(18)
Maryland	YES	1,114,422,209	(12)	386,290,465	(12)	0.801%	(11)
Massachusetts (D)	YES	3,029,554,000	(3)	662,123,000	(7)	1.685%	(5)
MICHIGAN (D)	**NO**	**1.423.649.000**	(11)	**549.545.000**	(10)	**0.595%**	(16)
Minnesota (E)	NO	375,650,142	(25)	86,552,056	(25)	0.317%	(30)
Missouri	YES	422,530,945	(23)	128,058,160	(19)	0.347%	(28)
Montana	YES	31,761,414	(37)	7,755,602	(37)	0.190%	(37)
Nebraska	NO	81,829,662	(35)	23,722,798	(34)	0.216%	(36)
New Hampshire (D)	YES	162,816,770	(32)	49,540,631	(32)	0.528%	(22)
New Jersey	YES	1,588,028,875	(9)	664,283,153	(6)	0.632%	(15)
New York	NO	3,610,638,000	(1)	1,399,581,000	(1)	0.687%	(13)
Ohio	YES	2,380,207,093	(4)	770,972,323	(5)	0.906%	(9)
Oregon	YES	1,085,117,107	(13)	287,889,832	(14)	1.498%	(6)
Pennsylvania	NO	1,673,751,534	(7)	635,520,876	(8)	0.561%	(20)
Rhode Island	YES	455,297,841	(22)	90,303,591	(24)	1.846%	(4)
South Dakota	YES	519,761,158	(20)	95,199,680	(22)	3.395%	(2)
Texas	YES	3,432,309,408	(2)	1,101,038,707	(2)	0.814%	(10)
Vermont	YES	74,740,667	(36)	22,318,611	(35)	0.568%	(19)
Virginia	YES	924,320,468	(15)	332,573,238	(13)	0.554%	(21)
Washington	YES	389,880,814	(24)	109,578,247	(20)	0.283%	(34)
West Virginia	YES	719,455,049	(16)	60,538,353	(29)	2.142%	(3)
Wisconsin	NO	482,129,618	(21)	152,881,834	(18)	0.401%	(25)

Notes to Table:

(A) Source of Data: The 1998 *LaFleur's World Lottery Almanac*.
(B) The numbers within parentheses represent each lottery's ranking among the 37 lotteries included in the table.
(C) Government revenue is the amount available for a lottery to transfer to the government based on current year operations.
(D) Government revenue includes net proceeds from the Charitable Gaming Divisions of lotteries in Massachusetts, Michigan, and New Hampshire.
(E) Minnesota government revenue includes taxes in lieu of sales tax.

Source of Data: *International Gaming & Wagering Business*, Vol. 18, No. 4, April 1997.

(5) Cents Spent to Generate One Sales Dollar (B)		(6) Government Revenue (C) as a Percent of Sales (B)		(7) Cents Spent to Generate One Government Dollar (B)		(8) Government Revenue (C) as a Percent of State Personal Income (B)	
15.4	(25)	32.8%	(14)	46.8	(20)	0.091%	(31)
15.9	(27)	36.7%	(7)	43.4	(16)	0.104%	(28)
15.1	(24)	27.6%	(26)	54.8	(26)	0.096%	(30)
9.4	(5)	33.8%	(13)	27.9	(5)	0.218%	(15)
6.6	(1)	6.4%	(37)	103.3	(36)	0.322%	(6)
16.1	(28)	35.7%	(10)	44.9	(18)	0.393%	(3)
11.4	(12)	39.7%	(2)	28.8	(7)	0.235%	(13)
13.7	(16)	34.2%	(12)	40.0	(14)	0.322%	(7)
18.2	(31)	21.8%	(33)	83.5	(33)	0.084%	(32)
10.5	(7)	38.2%	(5)	27.6	(3)	0.192%	(19)
14.2	(19)	30.2%	(21)	46.9	(21)	0.144%	(24)
19.4	(35)	26.9%	(27)	72.3	(32)	0.081%	(33)
16.7	(30)	31.3%	(18)	53.3	(25)	0.096%	(29)
14.3	(21)	28.3%	(24)	50.7	(22)	0.198%	(18)
15.0	(23)	36.2%	(8)	41.4	(15)	0.122%	(26)
18.6	(34)	26.5%	(29)	70.3	(29)	0.150%	(23)
10.7	(8)	34.7%	(11)	30.7	(8)	0.278%	(9)
8.2	(3)	21.9%	(32)	37.6	(12)	0.368%	(4)
10.7	(9)	**38.6%**	(4)	**27.8**	(4)	**0.230%**	(14)
16.4	(29)	23.0%	(31)	71.1	(30)	0.073%	(35)
15.7	(26)	30.3%	(20)	51.8	(23)	0.105%	(27)
26.1	(37)	24.4%	(30)	107.0	(37)	0.046%	(37)
20.2	(36)	29.0%	(23)	69.8	(27)	0.063%	(36)
14.2	(20)	30.4%	(19)	46.7	(19)	0.161%	(22)
8.4	(4)	41.8%	(1)	20.1	(1)	0.264%	(11)
11.0	(10)	38.8%	(3)	28.4	(6)	0.266%	(10)
14.2	(18)	32.4%	(15)	43.7	(17)	0.293%	(8)
18.6	(33)	26.5%	(28)	70.2	(28)	0.397%	(2)
9.7	(6)	38.0%	(6)	25.5	(2)	0.213%	(16)
14.1	(17)	19.8%	(34)	71.3	(31)	0.366%	(5)
18.3	(32)	18.3%	(35)	100.1	(35)	0.622%	(1)
11.6	(13)	32.1%	(16)	36.1	(10)	0.261%	(12)
11.1	(11)	29.9%	(22)	37.1	(11)	0.170%	(21)
12.3	(15)	36.0%	(9)	34.1	(9)	0.199%	(17)
14.6	(22)	28.1%	(25)	52.0	(24)	0.080%	(34)
8.0	(2)	8.4%	(36)	94.6	(34)	0.180%	(20)
11.9	(14)	31.7%	(17)	37.6	(13)	0.127%	(25)

Glossary of Acronyms and Terms

access controls	Features that limit the use of computer programs and data files to those persons with proper authorization.
DSR	district sales representative.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
IGWB	*International Gaming & Wagering Business.*
internal control structure	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.
MAIN	Michigan Administrative Information Network.
mission	The agency's main purpose or the reason the agency was established.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
RFP	request for proposal.
R*STARS	Relational Standard Accounting and Reporting System.
ticket switching	The purchase and activation of instant tickets at one retail location and the sale of these tickets at additional retail locations.