



SUMMARY



A Review of the South Carolina Education Lottery

INTRODUCTION

Sections 59-150-30(B) and 2-15-63(A) of the S.C. Code of Laws require the Legislative Audit Council to conduct a management audit of the South Carolina Education Lottery (SCEL) every three years. We reviewed the controls at the lottery, as well as followed up on recommendations in the previous audit reports.

Our audit objectives were to:

- Determine the adequacy of the lottery's internal controls over its operations.
- Determine the status of recommendations made in the previous LAC lottery audits.

BACKGROUND

The S.C. Education Lottery was established in 2001 and began selling tickets in January 2002. The mission of the lottery is "to provide, with integrity, entertainment options to adults to support education in South Carolina." The SCEL does not receive state appropriations and is funded through the sale of lottery game tickets. For FY 13-14, the lottery had revenues of \$1,268,126,205 and transferred \$330,703,203 to the Education Lottery Account.

INSTANT GAME CLOSING PROCEDURES

In 2009, the lottery revised its game closing procedures to require that tickets cannot be sold after the last top prize in a game is claimed. However, the lottery has not amended its regulations, as recommended, to reflect the change in procedure.

There was concern that ending the game sales earlier had adversely affected the instant game ticket process and sales. Our analysis of instant ticket sales showed that ending the game sales earlier had not adversely affected the sales of instant tickets.

We did find that the number of days that a game was active has decreased, but the percentage of tickets sold has increased since ending games sales earlier, with the exception of the \$1 and \$10 tickets. The profit that the lottery has earned from the instant games has also increased since the policy change for all of the tickets except the \$5 tickets.

INTERNAL CONTROLS OVER FRAUD

We reviewed SCEL's internal controls to prevent and detect retailer account fraud to determine if the controls are adequate. A lottery employee had embezzled \$226,439 from retailer accounts from 2010 to 2012. We found that SCEL had policies to detect and prevent this type of fraud which were not followed and has implemented additional controls to detect and prevent it in the future.

FOR MORE
INFORMATION

Our full report, including comments from relevant agencies, is published on the Internet. Copies can also be obtained by contacting our office.

LAC.SC.GOV

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FOLLOW-UP

We reviewed 18 recommendations from LAC audits of the lottery published in 2003, 2005, and 2010. Of these 18 recommendations, we found that 8 had been implemented, 2 had been partially implemented, and 8 had not been implemented. Of the 10 recommendations directed to SCEL, we found that 6 had been implemented, 2 had been partially implemented, and 2 had not been implemented.

LAC RECOMMENDATIONS	
Implemented	8
Partially Implemented	2
Not Implemented	8
TOTAL	18

We found that the lottery has communicated the odds of winning top prizes in its advertisements. SCEL has also included monthly per capita expenditures by demographic group in its demographic surveys. The lottery could improve the readability of its printed materials.

UNCLAIMED PRIZES

We found that the lottery could use additional methods for estimating the amount of unclaimed prizes. An unclaimed prize is a prize on a winning ticket that has not been claimed within the applicable time period for the lottery game.

The General Assembly determines the allocation of unclaimed prize money among agencies. The SCEL Commission provides an estimate of the expected amount of unclaimed prizes to the Board of Economic Advisors (BEA), which is then used as the basis for the General Assembly's appropriation of those funds.

According to a lottery official, the estimates are based on historical trends of unclaimed prizes. There is no formula used in the process. By using additional methods to estimate unclaimed prizes, the lottery and the BEA could provide the General Assembly with more accurate estimates to plan the appropriation of lottery funds.