



# Legislative Post Audit Performance Audit Report Highlights

Highlights

Kansas Lottery: Financial Audit of Fiscal Year 2011

## Report Highlights

December 2011 • R-11-017

### **Audit Concern**

*State law requires an annual financial audit of the Kansas Lottery. This year's audit was conducted by Cochran Head Vick & Co., P.A., a CPA firm under contract with the Legislative Division of Post Audit.*

### **Relevant Facts**

*Kansas Lottery products are sold at approximately 1,900 retail locations. The Lottery sells scratch tickets and instant pull tab games. Players may also purchase online game tickets through the multi-state lottery association.*

*The Expanded Lottery Act authorizes operation of one gaming facility in each of four gaming zones. Operations of the Boot Hill Casino and Resort in Dodge City began in December 2009. Two additional casinos will open in Kansas City and in the Wichita area in 2012. Currently, no management firm has expressed an interest in operating a casino in southeast Kansas.*

**AUDIT OBJECTIVES:** Financial audits done in accordance with government audit standards assess (1) whether the audited organization's financial statements are fairly presented in accordance with applicable accounting principles, (2) whether there are any significant problems with the organization's internal controls, and (3) whether the organization complied with applicable legal requirements.

### **AUDIT ANSWERS and KEY FINDINGS:**

- The auditors expressed an unqualified opinion on the Lottery's financial statements, meaning that the financial statements present the Lottery's financial position fairly in all material respects and in conformity with generally accepted accounting principles.
- The auditors did not report any material weaknesses in the Lottery's internal control over financial reporting and applicable compliance areas. They did report one significant deficiency indicating that it does not have adequate controls to prevent or detect a misstatement. These problems included having certain amounts that did not agree to the underlying supporting documentation, and not fully implementing certain accrual basis financial reporting aspects of the new SMART accounting system.
- The audit disclosed no instances of noncompliance with applicable legal requirements that were material to the Lottery's financial statements

### **THE AUDITORS RECOMMENDED**

- Management of the Lottery should:
  - review its processes for making year-end closing entries, and review account balances to ensure they agree to reconciliations and underlying supporting documentation
  - reconcile balance sheet accounts, especially accounts receivable, more frequently to identify and resolve differences as they occur
  - pursue additional training and use reference guides provided by the Government Finance Officers Association, the American Institute of Certified Public Accountants, the Governmental Accounting Standards Board to assist staff in determining correct accounting process and procedures
  - obtain additional guidance and instructions on implementing the accrual basis of accounting in SMART

**Agency Response:** Lottery staff:

- will continue to work with what is available in SMART, and make year-end accrual entries in SMART. GAAP basis financial statements may be available in SMART by the end of fiscal year 2012
- did not address the recommendations related to reviewing its processes, account balances, reconciling more frequently, and pursuing additional training and using reference guides

**Relevant Facts (continued)**

As of June 30, 2011

Total Assets	\$ 24.4 million
Total Liabilities	\$ 15.8 million
<b>Net Assets</b>	<b>\$ 8.6 million</b>

Revenues During Fiscal Year 2011

Game Revenues	\$ 232.4 million
Expanded Lottery Revenues	\$ 40.0 million
Other Revenues	\$ 2.4 million
<b>Total Revenues</b>	<b>\$274.8 million</b>

Expenses During Fiscal Year 2011

Game Prizes	\$ 132.3 million
Retailer Commissions	\$ 13.8 million
Casino Operator Management Fees	\$ 29.2 million
Other Expenses	\$ 23.7 million
<b>Total Operating Expenses</b>	<b>\$199.0 million</b>

Payments to

State of Kansas	\$ 80.3 million
Other	\$ 0.8 million

**HOW DO I GET AN AUDIT APPROVED?**

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the Division must be approved by the Legislative Post Audit Committee, a 10-member committee that oversees the Division's work. Any legislator who would like to request an audit should contact the Division directly at (785) 296-3792.

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