



STATE OF COLORADO

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MEMORANDUM

To: Members of the Legislative Audit Committee
From: Sally Symanski, CPA
State Auditor
Date: February 17, 2009
Re: Status Report - Colorado Lottery Performance Audit August 2008

Attached you will find a status report for the Colorado Lottery Performance Audit which was released in September 2008. Also attached you will find a copy of the recommendation locator from the report which contains a description of the 16 recommendations contained and their implementation dates.

STATE OF COLORADO

COLORADO LOTTERY DIVISION
Department of Revenue

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Bill Ritter, Jr.
Governor

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Executive Director

Jack A. Boehm
Lottery Director

January 21, 2009

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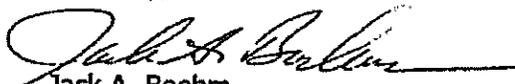
Dear Ms. Symanski:

Attached is a summary document of the progress made by the Colorado Lottery in implementing recommendations from the 2008 OSA Performance Audit.

I am pleased with our progress to date and assure you that the Lottery staff and the Colorado Lottery Commission take all the recommendations very seriously. We have already been able to see great progress in some of our initiatives, especially in the area of converting our back office systems off the antiquated Wang platform.

It is my hope that the document gives your office and the Legislative Audit Committee assurance that we are on the right track. Please contact me with any questions.

Sincerely,


Jack A. Boehm
Director

2008 OSA Performance Audit Status Report

Recommendation No. 1

The agency is in the process of completing the development of a new back office system which will allow us to migrate off the Wang system by the end of this fiscal year. We are working with a back office design contractor and Scientific Games (SGI) to document corresponding roles in this effort. The project is being overseen by the Department of Revenue and regular updates are provided to the Office of Information Technology. We believe we have established appropriate oversight for the development of the systems and the migration to the new back office platform.

Recommendation No. 2

Lottery management initiated communications with SGI to confirm understanding of the reporting relationships and lines of authority in the management of the gaming contract. We are in the process of resolving performance issues and are negotiating contract amendments to accurately reflect mutual responsibilities once the agency migrates to a new back office system. We believe we are on track to complete this recommendation (part B) by the date stated.

Recommendation No. 3

This recommendation has been implemented.

Recommendation No. 4

An integral component of the Lottery's back office migration involves the Lottery managing the Internal Control System internally. It is our intention to have this system fully operational even before the complete conversion, scheduled by the end of the fiscal year.

Recommendation No. 5

All vendor invoices are now being reviewed and approved prior to payment. Also, the Lottery is finalizing internal procedures that define roles and responsibilities involved in the Lottery's contract administration and management functions in accordance with the *State Contract Procedures and Management Manual*. On an ongoing basis, the lottery's internal procedures are used to train contract managers on their role, responsibilities and limitation of contract usage and authority. In October 2008, the Lottery's contract administration function was moved to the Purchasing Manager's position in the Pueblo office; since that time, this position's responsibilities have been clearly defined and documented. This change has facilitated improvements in the efficiency and effectiveness of the contract management process by providing valuable direction and oversight to program staff that monitor individual Lottery contracts on a day-to-day basis.

Recommendation No. 6

The Lottery has conducted research on prize structures in the past and that is how we have arrived at the current prize structures for most scratch games. The Lottery has also been lowering the prize payout percentages of some scratch ticket games for the last year. The Lottery will evaluate and document other states' activities as well as sales performance results of games that have had their payout reduced on an annual basis. The Lottery's intent with this analysis is to place popular games that players like in the marketplace with prize structures that will deliver the maximum return for our beneficiaries and maximum sale of products. We will also work with the Lottery's scratch ticket vendor on prize payout "optimization" considering sales and player likes/dislikes.

Recommendation No. 7

The study on retailer compensation is on-going.

Recommendation No. 8

It is our intention to look at all areas to identify possible cost savings and efficiencies once courier of Scratch tickets is implemented and fully operational. We have already identified some possible savings, including exploring a reduction in leased warehouse space.

Recommendation No. 9

This recommendation has been fully implemented.

Recommendation No. 10

The Lottery is looking at evaluation procedures for promotions. We continue to analyze the promotions and special events and Lottery staff will utilize the best evaluation tool for the particular event.

Recommendation No. 11

The Colorado Lottery Commission has worked with the Division on development of a governance manual and the on-going role of the Commission. Members and staff met in December for an all-day retreat to discuss these issues. Over the next few months, work will continue on these topics.

Proposed legislation has been introduced with the General Assembly to modify statutory language to accurately reflect the Commission's authority.

Recommendation No. 12

The Lottery has reviewed the internal timelines for Scratch game rules and, with the concurrence of the Colorado Lottery Commission, staff has reduced the time needed to bring the proposed rules to the Commission. As part of proposed legislation currently before the General Assembly, the current rule requirement for each Scratch game would be eliminated while keeping the current Commission oversight on all Lottery games.

Recommendation No. 13

The current Department of Revenue Background Investigation Policy is under review and is expected to be completed within the next few months. This policy will address what specific items can and/or cannot be included in a background investigation for employees and vendors. The current draft of the policy does address all the items in the Colorado Lottery's response to Recommendation 13a.

On January 1, 2009, the Colorado Lottery has implemented a Procedure outlining the scope and frequency of annual updates to the background investigation for current vendors and employees. The Procedure addresses all the items in the Colorado Lottery's response to Recommendation 13a.

In September 2008, the Colorado Lottery completed background investigations on all parties from Recommendation 13B.

Recommendation No. 14

Part (a) of this recommendation has been implemented. The Lottery is gathering data to accurately assess the cost of licensure and associated background checks.

Recommendation No. 15

The Lottery has requested an opinion from the Attorney General as the applicability of HB 06S-1023 to the Lottery's issuance of retailer licenses and the redemption of winning Lottery tickets. Representatives from the AG's office have indicated to us that they are seeking clarification from the federal government on aspects of the law and will provide us the opinion after receiving that information.

Recommendation No. 16

The Lottery understands the importance of capturing and tracking consistent player base information and will ensure this happens in the future by directing the advertising agency, in a documented manner, to follow an established, consistent format for gathering specific information concerning player demographics.

Starting July 1, 2008 (FY09) all Lottery research that requires demographic information shall be consistent with current US Census Bureau break down for age, gender, income, education and ethnicity.

Lottery specifically addressed the audit comment by directing Cactus Communication to require in the FY2009 Tracking Study Contract with CoreInsights, compliance by adjusting income levels and including ethnic data in all Tracking Study questionnaires.