

## Independent Auditor's Report on Applying Agreed-Upon Procedures

Members of the Texas Lottery Commission:

Mr. C. Tom Clowe, Jr., Chair

Mr. James A. Cox, Jr.

We have performed the procedures enumerated below, which were agreed to by the Texas Lottery Commission (Commission), solely to assist the Commission with respect to procedures surrounding Mega Millions accounting and reporting by the Commission. The Commission's management is responsible for the Commission's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Commission and Mega Millions member lotteries, which are the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings were as follows:

- A. Obtain from the Commission the *Texas Draw Activity* and the *Fixed Prize Analysis* reports for the period April 1, 2004, through March 31, 2005, and attach those as Exhibits I and II, respectively. Prove the mathematical accuracy of the schedules and note any exceptions.
  1. Finding – No exceptions noted, although the reports in Exhibits I and II actually cover the period April 2, 2004, through March 29, 2005, because April 2 and March 29 were the first and last draw dates of the period, respectively.
- B. Randomly select five (5) draw dates from the period (as agreed to by member lotteries).
  1. Finding – Selected the following dates for testing:
    - May 21, 2004
    - August 10, 2004
    - November 19, 2004
    - January 4, 2005
    - March 25, 2005

- C. For each draw date selected in step “B” above, compare the total amount of sales as shown on the daily sales report produced by the Commission’s gaming system and the total amount of sales shown on the related daily sales report produced by Internal Control System (ICS), with the balance listed in the “sales” column for the respective draw date on the *Texas Draw Activity* report attached as Exhibit I and ensure they are in agreement.
1. Finding – No exceptions noted.
- D. Calculate the total dollar amount of the fixed prizes for the draw dates selected in step “B” above, based on the total number of winners from the Commission’s gaming system for each prize level and the prize structure of the Mega Millions’ fixed prizes (as defined in the official game rules). Compare the calculated expense with the amount listed in the “Actual Fixed Prizes” column for the respective draw date on the *Texas Draw Activity* report attached as Exhibit I and ensure they are in agreement.
1. Finding – No exceptions noted.
- E. For each draw date selected in step “B” above, compare the amount of sales, actual fixed prizes, and share of fixed prizes shown on the *Texas Draw Activity* report attached as Exhibit I to the amounts shown on the applicable *Mega Millions Prize Settlement Reports* and ensure they are in agreement.
1. Finding – No exceptions noted.
- F. For the period identified, randomly select two months and obtain the *Expired Prize Settlement Report* distributed by the Virginia Lottery. For the two months selected, obtain from the Commission ICS the actual fixed prizes awarded and the prizes unclaimed. Compare the ICS data back to the data reported from the Virginia Lottery for each draw of the subject months to ensure they are in agreement.
1. Finding – Selected January 2005 and March 2005 *Expired Prize Settlement* reports to examine and noted no exceptions.
- G. Compare the amounts shown as the total of the actual fixed prizes and the total of the share of fixed prizes on the *Texas Draw Activity* report attached as Exhibit I to the applicable amounts shown on the *Fixed Prize Analysis* report attached as Exhibit II and ensure they are in agreement.
1. Finding – No exceptions noted.
- H. For the amount (if any) listed in the “Cost of the Jackpot Prizes” column of the *Texas Draw Activity* report attached as Exhibit I, obtain and compare the “cost of the jackpot prize” amount to the Texas Lottery Commission’s cash disbursement subsidiary records which summarize the funds disbursed to the prize winner and/or the broker from which the jackpot annuities were purchased and verify agreement.
1. Finding – Compared the amounts listed in the “Cash Options Amount” column in the *Texas Draw Activity* report to the *Mega Millions Jackpot Prize Settlement* report

for the appropriate date and noted that the Commission's cash disbursement subsidiary records agreed with the cash option totals also found in the *Mega Millions Jackpot Prize Settlement* report for the appropriate date. The actual payouts were less than the amounts listed in the *Texas Draw Activity* report because that report reflects the total jackpot amounts rather than the cash option payout amounts.

- I. For each purchase (if any) of investments associated with the jackpot prizes:
  - i. Review broker confirmations to verify that investments are funded in accordance with allowed investment vehicles per the multi-state rules, regulations, or procedures.
  - ii. Obtain the bid sheets and supporting documentation and verify that the investments were purchased through a competitive bidding process involving a minimum of three brokerage firms.
  - iii. Obtain the *Security Purchase* report, which lists the results of the security purchase, and verify that the information reported to the group is accurate, including the annuity factor for the non-winning bidders.
  - iv. Compare the total of the period transfers from the Commission to the Virginia Lottery for settlement of the fixed prize liability as shown in the Commission's cash disbursement subsidiary records to the amount listed in the "Qtrly/Yrly Settlements Transfers In (Out)" column on the *Fixed Prize Analysis* report attached as Exhibit II and ensure they are in agreement.
  - v. Compare the balance listed as the Commission's payable as of March 31, 2005, for the fixed prizes as shown on the *Fixed Prize Analysis* report attached as Exhibit II to the Commission's financial accounting records and to the *Mega Millions Prize Settlement* report as of March 31, 2005, and ensure they are in agreement.
1. Finding – Because the Texas jackpot prize winners were paid based on cash option payouts, steps I(i) through I(iii) are not applicable. No exceptions were noted with regard to steps I(iv) and I(v).

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users listed above and is not intended to be and should not be used by those who did not agree to the procedures and take responsibility for the sufficiency of the procedures for their purpose.



John Keel, CPA  
State Auditor

December 14, 2005

# Exhibit I – Texas Draw Activity Report

MS400L  
MS400FP1  
FIN76/VLTFRD

MEGA MILLIONS  
Texas Draw Activity  
From 04/02/2004 To 03/31/2005

Date: 4/21/05  
Time: 14:26:24  
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|    | Draw Date | Sales      | Actual Fixed Prizes | Share of Fixed Prizes | Amnitted JP Amount | Cash Options Amount |
|----|-----------|------------|---------------------|-----------------------|--------------------|---------------------|
|    | 4/02/2004 | 2,350,512  | 274,348             | 414,240               |                    |                     |
|    | 4/06/2004 | 2,484,403  | 453,777             | 423,227               |                    |                     |
| MD | 4/09/2004 | 2,923,208  | 403,960             | 778,117               |                    |                     |
|    | 4/13/2004 | 1,408,325  | 136,806             | 198,893               |                    |                     |
|    | 4/16/2004 | 1,443,359  | 335,936             | 265,993               |                    |                     |
|    | 4/20/2004 | 1,413,476  | 158,213             | 226,174               |                    |                     |
|    | 4/23/2004 | 1,576,891  | 512,947             | 310,167               |                    |                     |
|    | 4/27/2004 | 1,543,874  | 549,546             | 382,391               |                    |                     |
|    | 4/30/2004 | 1,777,799  | 396,975             | 381,205               |                    |                     |
| NY | 5/04/2004 | 1,807,739  | 200,977             | 322,158               |                    |                     |
|    | 5/07/2004 | 2,009,687  | 399,265             | 378,506               |                    |                     |
|    | 5/11/2004 | 1,202,672  | 143,403             | 218,511               |                    |                     |
|    | 5/14/2004 | 1,261,678  | 317,983             | 220,991               |                    |                     |
|    | 5/18/2004 | 1,198,724  | 465,656             | 174,976               |                    |                     |
|    | 5/21/2004 | 1,314,163  | 137,891             | 265,533               |                    |                     |
|    | 5/25/2004 | 1,293,076  | 144,577             | 157,894               |                    |                     |
|    | 5/28/2004 | 1,469,729  | 339,042             | 236,542               |                    |                     |
|    | 6/01/2004 | 1,384,917  | 164,369             | 249,731               |                    |                     |
|    | 6/04/2004 | 1,837,158  | 358,966             | 280,546               |                    |                     |
|    | 6/08/2004 | 1,978,743  | 393,310             | 290,472               |                    |                     |
|    | 6/11/2004 | 2,614,493  | 467,225             | 405,109               |                    |                     |
|    | 6/15/2004 | 3,807,320  | 632,153             | 767,707               |                    |                     |
|    | 6/18/2004 | 4,725,507  | 813,756             | 930,018               |                    |                     |
|    | 6/22/2004 | 4,957,952  | 935,501             | 863,499               |                    |                     |
|    | 6/25/2004 | 5,614,275  | 664,059             | 891,648               |                    |                     |
|    | 6/29/2004 | 8,160,708  | 1,892,422           | 1,708,036             |                    |                     |
| MA | 7/02/2004 | 12,604,973 | 1,846,689           | 2,072,083             |                    |                     |
|    | 7/06/2004 | 1,432,765  | 181,151             | 314,447               |                    |                     |
|    | 7/09/2004 | 1,581,513  | 207,135             | 232,582               |                    |                     |
|    | 7/13/2004 | 1,506,264  | 329,164             | 252,374               |                    |                     |
|    | 7/16/2004 | 1,707,466  | 227,713             | 317,421               |                    |                     |
|    | 7/20/2004 | 1,639,482  | 381,642             | 312,279               |                    |                     |
| MI | 7/23/2004 | 1,845,770  | 418,454             | 333,125               |                    |                     |
| NY | 7/27/2004 | 1,270,732  | 166,932             | 851,921               |                    |                     |
|    | 7/30/2004 | 1,334,329  | 148,036             | 254,119               |                    |                     |
|    | 8/03/2004 | 1,241,873  | 166,066             | 387,258               |                    |                     |
|    | 8/06/2004 | 1,403,660  | 511,520             | 225,203               |                    |                     |
|    | 8/10/2004 | 1,340,312  | 349,904             | 234,672               |                    |                     |
|    | 8/13/2004 | 1,532,699  | 329,919             | 177,526               |                    |                     |
|    | 8/17/2004 | 1,476,225  | 332,288             | 301,530               |                    |                     |
| OH | 8/20/2004 | 1,685,419  | 370,042             | 313,323               |                    |                     |
|    | 8/24/2004 | 1,092,714  | 117,010             | 149,649               |                    |                     |
|    | 8/27/2004 | 1,174,131  | 134,208             | 199,566               |                    |                     |
|    | 8/31/2004 | 1,109,998  | 112,203             | 217,482               |                    |                     |
|    | 9/03/2004 | 1,287,490  | 352,806             | 279,350               |                    |                     |
|    | 9/07/2004 | 1,130,218  | 109,791             | 166,203               |                    |                     |
|    | 9/10/2004 | 1,418,109  | 161,400             | 203,417               |                    |                     |
|    | 9/14/2004 | 1,465,544  | 166,463             | 186,776               |                    |                     |
|    | 9/17/2004 | 1,654,696  | 371,695             | 326,877               |                    |                     |
|    | 9/21/2004 | 1,695,214  | 576,017             | 318,351               |                    |                     |
|    | 9/24/2004 | 1,969,382  | 221,761             | 330,996               |                    |                     |
|    | 9/28/2004 | 2,108,114  | 237,541             | 325,415               |                    |                     |

MS4001  
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FIN76/VLT/PRD

MEGA MILLIONS  
Texas Draw Activity  
From 04/02/2004 To 03/31/2005

Date: 4/21/05  
Time: 14:26:24  
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|            | Draw Date  | Sales      | Actual Fixed Prizes | Share of Fixed Prizes | Amnuitized JP Amount | Cash Options Amount |  |
|------------|------------|------------|---------------------|-----------------------|----------------------|---------------------|--|
| TX         | 10/01/2004 | 2,918,430  | 1,242,301           | 658,615               |                      | 106,000,000         |  |
|            | 10/05/2004 | 1,077,952  | 271,819             | 242,461               |                      |                     |  |
|            | 10/08/2004 | 1,207,134  | 140,879             | 183,267               |                      |                     |  |
|            | 10/12/2004 | 1,142,178  | 149,006             | 175,033               |                      |                     |  |
|            | 10/15/2004 | 1,328,423  | 176,361             | 341,036               |                      |                     |  |
|            | 10/19/2004 | 1,310,472  | 165,663             | 209,673               |                      |                     |  |
|            | 10/22/2004 | 1,522,925  | 181,218             | 244,930               |                      |                     |  |
|            | 10/26/2004 | 1,490,050  | 162,845             | 241,456               |                      |                     |  |
|            | 10/29/2004 | 1,633,226  | 368,652             | 327,364               |                      |                     |  |
|            | 11/02/2004 | 1,699,430  | 183,640             | 242,200               |                      |                     |  |
|            | 11/05/2004 | 1,925,386  | 564,062             | 388,885               |                      |                     |  |
|            | 11/09/2004 | 2,129,855  | 256,745             | 342,809               |                      |                     |  |
|            | 11/12/2004 | 2,700,420  | 294,339             | 435,345               |                      |                     |  |
|            | 11/16/2004 | 2,910,611  | 357,567             | 612,909               |                      |                     |  |
|            | 11/19/2004 | 3,366,983  | 382,555             | 555,737               |                      |                     |  |
|            | NY         | 11/23/2004 | 1,156,147           | 132,027               | 164,027              |                     |  |
| 11/26/2004 |            | 1,153,892  | 300,312             | 242,789               |                      |                     |  |
| 11/30/2004 |            | 1,150,153  | 317,189             | 191,457               |                      |                     |  |
| NJ         | 12/03/2004 | 1,376,284  | 173,716             | 183,343               |                      |                     |  |
|            | 12/07/2004 | 1,070,333  | 121,867             | 223,468               |                      |                     |  |
|            | 12/10/2004 | 1,157,640  | 124,713             | 229,398               |                      |                     |  |
|            | 12/14/2004 | 1,080,038  | 109,463             | 187,914               |                      |                     |  |
|            | 12/17/2004 | 1,268,961  | 130,560             | 152,267               |                      |                     |  |
|            | 12/21/2004 | 1,275,024  | 327,822             | 232,864               |                      |                     |  |
|            | 12/24/2004 | 1,577,998  | 359,915             | 318,100               |                      |                     |  |
|            | 12/28/2004 | 1,391,741  | 316,069             | 306,002               |                      |                     |  |
|            | 12/31/2004 | 1,919,620  | 205,865             | 321,697               |                      |                     |  |
|            | GA         | 1/04/2005  | 1,652,341           | 422,402               | 451,204              |                     |  |
|            |            | 1/07/2005  | 1,950,212           | 562,926               | 385,459              |                     |  |
|            |            | 1/11/2005  | 2,163,465           | 234,246               | 362,420              |                     |  |
|            |            | 1/14/2005  | 2,790,351           | 495,574               | 472,768              |                     |  |
|            |            | 1/18/2005  | 2,952,260           | 351,439               | 679,823              |                     |  |
|            |            | 1/21/2005  | 1,269,889           | 168,236               | 179,931              |                     |  |
|            |            | 1/25/2005  | 1,062,790           | 321,319               | 259,596              |                     |  |
| 1/28/2005  |            | 1,188,651  | 304,079             | 154,509               |                      |                     |  |
| 2/01/2005  |            | 1,204,218  | 137,368             | 271,188               |                      |                     |  |
| 2/04/2005  |            | 1,394,497  | 513,388             | 261,010               |                      |                     |  |
| TX         | 2/08/2005  | 1,373,448  | 193,232             | 259,685               |                      |                     |  |
|            | 2/11/2005  | 1,606,016  | 355,134             | 269,153               |                      |                     |  |
|            | 2/15/2005  | 1,563,534  | 184,504             | 269,882               |                      |                     |  |
|            | 2/18/2005  | 1,833,575  | 380,731             | 337,369               |                      |                     |  |
|            | 2/22/2005  | 1,885,543  | 567,591             | 334,024               |                      |                     |  |
|            | 2/25/2005  | 2,237,906  | 595,676             | 421,196               |                      |                     |  |
|            | 3/01/2005  | 2,635,888  | 290,160             | 415,153               |                      | 115,000,000         |  |
|            | 3/04/2005  | 1,171,215  | 158,625             | 243,985               |                      |                     |  |
|            | 3/08/2005  | 1,107,537  | 333,384             | 308,056               |                      |                     |  |
|            | 3/11/2005  | 1,262,024  | 325,636             | 229,233               |                      |                     |  |
| TX         | 3/15/2005  | 1,254,664  | 145,423             | 231,281               |                      |                     |  |
|            | 3/18/2005  | 1,389,284  | 161,574             | 184,800               |                      |                     |  |
|            | 3/22/2005  | 1,378,493  | 155,581             | 254,464               |                      |                     |  |
|            | 3/25/2005  | 1,557,188  | 178,476             | 191,858               |                      |                     |  |
|            | 3/29/2005  | 1,562,607  | 171,867             | 270,993               |                      |                     |  |
|            | * Totals * |            | 198,720,272         | 35,447,364            | 36,660,325           |                     |  |

## Exhibit II – Fixed Prize Analysis Report

**MULTI-STATE LOTTERY  
FIXED PRIZE ANALYSIS  
FOR THE PERIOD FROM APRIL 02, 2004 TO MARCH 31, 2005**

**EXHIBIT II**

|               | April 2, 2004<br>Receivable<br>(Payable) | Prior Year<br>Settlement<br>Adjustment* | Actual Fixed<br>Prizes | Share of Fixed<br>Prizes | Qtrly/Yrly<br>Settlements<br>Transfers In (Out) | March 31, 2005<br>Receivable<br>(Payable) |
|---------------|------------------------------------------|-----------------------------------------|------------------------|--------------------------|-------------------------------------------------|-------------------------------------------|
| Georgia       | (271,770)                                | 517                                     | 33,250,297             | 31,808,132               | 1,485,676                                       | (314,764)                                 |
| Illinois      | 291,478                                  | 690                                     | 36,261,727             | 36,708,727               | (329,857)                                       | 175,025                                   |
| Massachusetts | (201,519)                                | 202                                     | 16,434,713             | 17,411,696               | (1,259,343)                                     | 81,043                                    |
| Maryland      | 297,525                                  | (5,849)                                 | 16,645,631             | 17,840,605               | (798,897)                                       | (104,401)                                 |
| Michigan      | (494,532)                                | 578                                     | 34,783,018             | 34,888,329               | (418,381)                                       | (180,884)                                 |
| New Jersey    | 564,538                                  | 685                                     | 44,268,257             | 44,919,419               | 433,542                                         | (519,481)                                 |
| New York      | (439,256)                                | 1,355                                   | 83,390,892             | 83,029,103               | (265,153)                                       | 189,041                                   |
| Ohio          | (457,066)                                | 542                                     | 32,966,260             | 33,456,257               | (1,346,805)                                     | 400,284                                   |
| Texas         | (365,454)                                | 740                                     | 35,447,364             | 36,660,325               | (1,378,921)                                     | (198,754)                                 |
| Virginia      | 632,980                                  | 364                                     | 27,215,845             | 25,448,928               | 2,125,168                                       | 275,093                                   |
| Washington    | 443,076                                  | 176                                     | 11,145,354             | 9,637,837                | 1,752,971                                       | 197,798                                   |
| <b>Total</b>  | <u>0</u>                                 | <u>0</u>                                | <u>371,809,358</u>     | <u>371,809,358</u>       | <u>0</u>                                        | <u>0</u>                                  |

\*Prize Adjustment Report for Draw Date 12/09/03 prepared on 6/28/04.  
Correction for Maryland winner count.

Approved: \_\_\_\_\_

Date: \_\_\_\_\_