

## 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 (the "Commission"), solely to assist you 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, who 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 are as follows:

- A. Obtain from the Commission the "Texas Draw Activity" and the "Fixed Prize Analysis" for the period April 1, 2005, through March 31, 2006 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.
  
- B. Randomly select five (5) draw dates from the period (as agreed to by member lotteries).
  1. **Finding** – Selected the following dates for testing:
    - April 8, 2005
    - July 15, 2005
    - September 27, 2005
    - December 16, 2005
    - March 7, 2006

- 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 June 2005 and February 2006 Expired Prize Settlement reports to examine, noting 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 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** – Texas did not have a jackpot winner during the period April 1, 2005, through March 31, 2006. Therefore, this information was not included in the “Texas Draw Activity” report and no jackpot prizes were purchased.


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 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, 2006, 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, 2006 and ensure they are in agreement.

1. **Finding** – Because Texas did not have a jackpot prize winner during the period April 1, 2005, through March 31, 2006, steps I(i) - I(iii) are not applicable. No exceptions were noted with regard to step I(iv). While performing step I(v), it was noted that the Commission’s financial accounting records did not agree to the payable balance as shown on the “Fixed Prize Analysis” report as of March 31, 2006. The financial accounting records were understated by a total of \$169,901. However, an adjustment was posted to the financial accounting records on April 3, 2006, in order to bring the payable balance into agreement with the “Fixed Prize Analysis” report as of March 31, 2006.

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 18, 2006

## Exhibit I – Texas Draw Activity Report

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FIN76/VLTPRD

MBSA MILLIONS  
Texas DRAW Activity  
From 04/01/2005 To 03/31/2006

Date: 9/19/06  
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	Draw Date	Sales	Actual Fixed Prizes	Share of Fixed Prizes	Amortized JP Amount	Cash Options Amount
	4/01/2005	1,785,254	232,873	333,450		
	4/05/2005	1,819,570	195,141	332,662		
	4/08/2005	2,363,722	827,232	552,048		
	4/12/2005	2,534,834	442,072	377,899		
	4/15/2005	3,008,370	510,514	580,933		
	4/19/2005	3,514,111	922,356	623,640		
MI	4/22/2005	5,644,980	1,145,247	954,964		
	4/26/2005	1,108,059	126,039	195,198		
	4/29/2005	1,171,797	318,070	236,772		
	5/03/2005	1,125,901	290,420	141,725		
	5/06/2005	1,262,354	163,975	189,154		
	5/10/2005	1,200,552	131,677	177,498		
	5/13/2005	1,428,387	159,882	294,022		
	5/17/2005	1,359,951	179,797	245,525		
	5/20/2005	1,524,118	356,071	262,859		
	5/24/2005	1,609,115	529,415	277,855		
	5/27/2005	1,891,142	234,117	283,550		
	5/31/2005	1,913,972	579,433	339,441		
OH	6/03/2005	2,552,137	459,924	493,875		
	6/07/2005	1,141,676	140,638	209,487		
	6/10/2005	1,182,848	292,219	208,044		
	6/14/2005	1,113,740	112,179	138,563		
	6/17/2005	1,288,916	125,519	165,216		
	6/21/2005	1,247,938	128,437	163,995		
	6/24/2005	1,392,945	139,408	199,356		
	6/28/2005	1,366,897	152,244	219,355		
	7/01/2005	1,593,441	188,107	228,380		
	7/05/2005	1,456,298	132,985	169,264		
	7/08/2005	1,793,048	222,034	387,225		
	7/12/2005	2,168,198	245,212	345,776		
	7/15/2005	2,550,854	1,028,097	494,736		
	7/19/2005	2,724,735	570,364	479,565		
OR	7/22/2005	3,230,399	359,129	618,814		
	7/26/2005	1,129,533	145,261	234,273		
	7/29/2005	1,189,765	385,094	265,475		
	8/02/2005	1,145,818	120,460	159,949		
	8/05/2005	1,301,826	149,702	145,140		
	8/09/2005	1,243,758	146,574	212,194		
	8/12/2005	1,414,001	173,983	196,799		
	8/16/2005	1,390,730	406,866	364,250		
	8/19/2005	1,587,888	187,602	290,225		
	8/23/2005	1,580,272	201,940	574,561		
	8/26/2005	1,867,916	422,923	253,554		
	8/30/2005	2,104,381	239,221	329,280		
	9/02/2005	2,476,451	745,384	404,124		
	9/06/2005	2,424,196	807,392	429,666		
	9/09/2005	3,177,466	856,547	497,029		
	9/13/2005	4,075,076	681,497	659,187		
NJ	9/16/2005	5,426,973	912,186	968,653		
	9/20/2005	1,174,033	119,495	174,469		
	9/23/2005	992,223	597,400	158,591		
	9/27/2005	1,102,682	388,686	206,656		

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MEGA MILLIONS  
 Texas Draw Activity  
 From 04/01/2005 To 03/31/2006

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	Draw Date	Sales	Actual Fixed Prizes	Share of Fixed Prizes	Annuitized JP Amount	Cash Options Amount
	9/30/2005	1,337,233	156,765	273,097		
	10/04/2005	1,343,648	158,595	295,423		
	10/07/2005	1,549,487	163,127	306,477		
	10/11/2005	1,549,258	402,268	344,920		
	10/14/2005	1,830,299	234,918	265,767		
	10/18/2005	2,076,193	288,678	512,622		
	10/21/2005	2,465,181	577,978	455,207		
	10/25/2005	2,305,739	548,754	410,590		
	10/28/2005	2,587,014	792,339	442,240		
	11/01/2005	2,723,144	381,119	481,744		
	11/04/2005	3,329,933	351,682	486,313		
	11/08/2005	4,078,749	1,296,114	1,009,975		
	11/11/2005	4,829,204	507,884	735,441		
CA	11/15/2005	7,690,500	989,274	1,327,301		
	11/18/2005	1,316,871	157,076	184,453		
	11/22/2005	1,248,972	125,258	212,763		
	11/25/2005	1,320,450	149,870	250,929		
CA/MI	11/29/2005	1,386,652	419,794	278,518		
	12/02/2005	1,298,149	161,426	205,032		
	12/06/2005	1,196,271	188,164	256,489		
	12/09/2005	1,270,057	137,944	213,473		
	12/13/2005	1,306,762	191,483	305,782		
	12/16/2005	1,453,477	176,785	245,301		
	12/20/2005	1,453,770	142,060	223,560		
	12/23/2005	1,703,741	174,333	203,541		
	12/27/2005	1,532,732	420,490	307,678		
CA	12/30/2005	1,902,222	219,614	353,750		
	1/03/2006	1,104,556	127,201	189,485		
OH	1/06/2006	1,186,241	134,663	207,680		
	1/10/2006	1,038,313	359,089	242,585		
	1/13/2006	1,192,910	364,889	221,296		
	1/17/2006	1,076,281	365,498	176,679		
	1/20/2006	1,253,414	122,747	159,276		
	1/24/2006	1,209,298	368,976	167,008		
	1/27/2006	1,411,599	229,278	398,734		
	1/31/2006	1,454,158	183,458	173,573		
	2/03/2006	1,679,306	211,146	335,402		
	2/07/2006	1,703,163	715,760	377,816		
	2/10/2006	2,264,637	240,080	371,836		
	2/14/2006	2,465,068	535,742	431,097		
	2/17/2006	3,370,120	651,600	646,092		
	2/21/2006	3,307,239	663,810	674,814		
	2/24/2006	5,487,934	1,287,283	1,182,903		
OH	2/28/2006	6,591,700	954,572	1,128,098		
	3/03/2006	1,579,162	424,854	301,708		
	3/07/2006	1,343,408	157,565	194,501		
	3/10/2006	1,533,179	405,740	271,615		
	3/14/2006	1,491,207	177,388	332,411		
	3/17/2006	1,711,671	462,295	282,534		
	3/21/2006	1,663,948	204,101	383,769		
	3/24/2006	1,907,109	221,534	360,493		
	3/28/2006	1,942,248	231,540	277,183		

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MEGA MILLIONS  
Texas Draw Activity  
From 04/01/2005 To 03/31/2006

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Draw Date	Sales	Actual Fixed Prizes	Share of Fixed Prizes	Amortized JP Amount	Cash Options Amount
3/31/2006	2,337,240	277,306	447,207		
* Totals *	211,266,065	38,920,949	37,969,102		

## Exhibit II – Fixed Prize Analysis Report

MS4001 MS400PF3 FIN76/VLTPRD	MGA MILLIONS Fixed Prize Analysis From 04/01/2005 To 03/31/2006			Date: 8/14/06 Time: Page: 1	
	Receivable (Payable)	Actual Fixed Prizes	Share of Fixed Prizes	Qtrly/Yrly Settlements Transfers In(Out)	Receivable (Payable)
California					
Georgia	314,764-	40,562,392	38,048,731	2,813,681	614,784-
Illinois	175,025	43,325,783	44,029,892	352,113-	176,971-
Massachusetts	81,043	22,347,687	24,319,928	1,523,053-	368,145-
Maryland	104,401-	21,024,843	21,751,019	500,833-	329,744-
Michigan	180,884-	42,417,028	43,313,228	1,076,052-	1,032-
New Jersey	519,481-	58,148,533	59,393,363	2,963,031-	1,198,720
New York	189,041	109,513,014	102,978,905	5,865,739	857,411
Ohio	400,284	39,628,651	40,163,933	11,430	146,428-
Texas	198,754-	38,920,949	37,969,102	1,107,503	354,410-
Virginia	275,093	26,320,068	29,398,248	2,653,944-	149,143-
Washington State	197,798	10,065,153	10,907,752	729,327-	84,526
** Totals **		452,274,101	452,274,101		