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*Auditing for a Better Oregon*

February 21, 2002

Chris Lyons, Director  
Oregon State Lottery Commission  
500 Airport Road SE  
PO Box 12649  
Salem, Oregon 97301-1649

Dear Ms. Lyons:

We have completed our audit of the Oregon State Lottery (Lottery) for the fiscal year ended June 30, 2001. During our audit, we did not identify any reportable conditions related to noncompliance with applicable laws and regulations. However, we did identify one reportable condition related to internal control that we have disclosed in our audit report issued under a separate cover. Professional auditing standards define reportable conditions as matters relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect Lottery's ability to record, process, summarize and report financial data. We did identify two matters that we considered not to be reportable, but require management's attention. Those issues include matters relating to internal control over financial reporting and controls over administrative check stock.

Internal Control Over Financial Reporting

The financial statements provided to the audit team contained errors that should have been detected during management review. During a preliminary review of the cash flow statement, we identified numerous errors in which the change in account balances did not agree with what was reported on the statement. After Lottery personnel agreed to make the changes, the revised statements still contained some of the errors. In addition, schedules in the accompanying notes were not updated to reflect current year balances, some schedules were only partially updated to reflect current year balances, and other schedules did not agree with the balances reported on the financial statements.

**We recommend** that Lottery management develop and implement a system of quality control including more thorough reviews of financial statements prior to submitting them for audit.

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Management Letter No. 177-2002-02-01

Controls Over Administrative Check Stock

The Lottery Accounting Department is not fully complying with Oregon State Treasury Cash Management Policy 02.18.02.PO. We identified a number of employees with access to blank check stock, and that Lottery does not perform periodic inventories or maintain control logs.

**We recommend** that Lottery further limit access to the safe containing blank check stock. We also recommend that Lottery utilize the preprinted check control numbers to implement a check control log and periodically inventory the blank check stock.

We will follow up on the agency's progress in addressing these issues during our audit of the fiscal year 2002 financial statements. Should you have any questions, feel free to contact Janice Richards, Audit Supervisor, or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Neal Weatherspoon, CPA, CISA  
Audit Administrator

Fieldwork Completion Date:  
December 12, 2001

NW:bk

cc: Kathy Ortega, Chief Financial Officer  
Mark Wilborn, Internal Audit Manager  
E. D. "Debbs" Potts, Lottery Commissioner, Chair  
Pam Roskowski, Lottery Commissioner, Vice Chair  
Chris Neilsen, Lottery Commissioner  
Staci Anderson, Lottery Commissioner  
Bruce Andrews, Lottery Commissioner  
Mike Greenfield, Director, Department of Administrative Services  
John Radford, Administrator, State Controller's Office,  
Department of Administrative Services