

# CALIFORNIA STATE LOTTERY

Review Report

## QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

*For the Quarter Ended March 31, 2021*



MALIA M. COHEN  
California State Controller

November 2023



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

November 29, 2023

Alva Vernon Johnson, Director  
California State Lottery  
700 North Tenth Street  
Sacramento, CA 95811

Dear Mr. Johnson:

The State Controller's Office reviewed the financial documentation supporting the California State Lottery's (Lottery) transfer of funds to the public education community for the quarter ended March 31, 2021. Our review found that the transfer amount of \$579,302,344 is supported by the Lottery's accounting records, and that the Lottery was on target to meet annual revenue allocation requirements for prize payouts, funds to education, and administrative expenses, as specified in the California State Lottery Act of 1984, for the fiscal year ended June 30, 2021.

If you have any questions, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at (916) 323-5744, or by email at [respilla@sco.ca.gov](mailto:respilla@sco.ca.gov).

Sincerely,

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

KT/ac

Mr. Alva Vernon Johnson  
November 29, 2023  
Page 2 of 2

cc: Gregory Ahern, Chair

California State Lottery Commission

Tiffani Alvidrez, Commissioner

California State Lottery Commission

Anthony Garrison-Engbrecht, Commissioner

California State Lottery Commission

Keetha Mills, Commissioner

California State Lottery Commission

Alexandre Rasouli, M.D., Commissioner

California State Lottery Commission

Harjinder Shergill-Chima, Chief Deputy Director

California State Lottery

Nicholas Buchen, Deputy Director, Finance Division

California State Lottery

Sara Sheikholislam, Deputy Director, Internal Audits

California State Lottery

Emily Nguyen, Audit Manager, Internal Audits

California State Lottery

Mimi Alemu, External Audits Liaison, Internal Audits

California State Lottery

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**Attachment—California State Lottery’s Transfer Request Dated June 7, 2021**

# Review Report

## Summary

The California State Lottery (Lottery) requested that the State Controller's Office (SCO) transfer \$579,302,344 to the Lottery Education Fund for disbursement to the public education community for the quarter ended March 31, 2021. Based on the work performed, we determined that the requested transfer amount was supported by the Lottery's accounting records. In addition, we determined that the Lottery was on target to meet annual revenue allocation requirements for prize payouts, funds to education, and administrative expenses, as specified in the the California State Lottery Act of 1984 (Lottery Act), for the fiscal year ended June 30, 2021.

## Background

In 1984, California voters passed an initiative, Proposition 37, to authorize the creation of a state-operated lottery. The initiative created the Lottery Act, which is found in Chapter 12.5 of Government Code.

The Lottery Act requires revenues from the Lottery to be allocated to maximize the amount of funding allocated to the public education community. The Lottery Act requires that not less than 87% of the total annual revenues from Lottery ticket sales be returned to the public in the form of prize payouts and funds to education and not more than 13% be allocated for administrative expenses. Furthermore, the Lottery Act requires that not less than 50% of the total annual Lottery revenues, in an amount to be determined by the California State Lottery Commission (Commission), be returned to the public in the form of prize payouts. In addition, the Commission must establish the percentages to be allocated to the benefit of public education.

Each quarter, the Lottery requests that the SCO transfer funds to the Lottery Education Fund. The Lottery's request usually occurs eight to 10 weeks after the close of each quarter. The transfer request for the quarter ended March 31, 2021, is included as an attachment.

## Review Authority

We conducted this review in accordance with Government Code section 8880.46.6, which authorizes the SCO to conduct quarterly and annual audits of all accounts and transactions of the Commission and other special audits as necessary. The SCO has the authority to examine any and all records of the Commission, its distributing agencies, Lottery contractors, and Lottery retailers.

## Objectives, Scope, and Methodology

The objectives of our review were to determine whether:

- The requested transfer amount was supported by accounting records; and
- The Lottery was on target to meet the annual allocation requirements specified in the Lottery Act.

We performed this review for the third quarter ended March 31, 2021. To achieve our objectives, we performed the following procedures:

- We compared fiscal year (FY) 2020-21 audited income statement balances with FY 2019-20 audited income statement balances and performed analytical procedures for variances over 15%.
- We traced amounts reported in the income statement to the Lottery's accounting records.
- We judgmentally selected sales and expense items, based on dollar amount and type, and traced to supporting documentation (results were not projected to the intended [total] population).
- We determined whether the Lottery met the annual revenue allocation requirements specified in the Lottery Act.
- We determined whether the requested amount was transferred to the Lottery Education Fund.
- We verified that the funds were transferred from the Lottery Education Fund to the public education community for the quarter ended March 31, 2021.

## Results

Based on the work performed, we determined that the requested transfer amount of \$579,302,344 for the third quarter ended March 31, 2021, was supported by the Lottery's accounting records. In addition, we determined that the Lottery was on target to meet annual revenue allocation requirements for prize payouts, funds to education, and administrative expenses, as specified in the Lottery Act, for the quarter ended March 31, 2021.

In a letter dated June 7, 2021, the Lottery requested that the SCO transfer \$579,302,344 to the Lottery Education Fund for disbursement to the public education community. On June 23, 2021, the SCO's Local Government Programs and Services Division transferred \$560,251,400 from the State Lottery Fund to the Lottery Education Fund.

The remaining balance of \$19,050,944 is a year-end adjustment amount that was withheld from the FY 2019-20 fourth-quarter transfer, pending completion of the financial statement audit and resolution of accounting issues. The year-end adjustment is typically transferred to the Lottery Education Fund for disbursement to the public education community in the following year's second- or third-quarter transfer. However, the adjustment was not disbursed until the FY 2020-21 fourth-quarter transfer due to SCO mainframe computer system issues.

For the nine months ended March 31, 2021, of the total revenues from ticket sales:

- 66.46% was returned to the public in the form of prize payouts;
- 22.30% was transferred to the public education community; and
- 11.24% was used for administrative expenses.

The Lottery returned 88.76% of total revenues from ticket sales in the form of prize payouts and funds to education. The Lottery was on target to meet annual allocation requirements specified in the Lottery Act. See the Schedule for a summary of Lottery revenue allocations and allocation percentages.

**Views of  
Responsible  
Officials**

We discussed our results with Lottery representatives via email on June 1, 2023. As there are no findings, the Lottery waived the exit conference and draft report. We agreed the report would be issued as final.

**Restricted Use**

This report is intended for the information and use of the Lottery, the Commission, and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

**KIMBERLY TARVIN, CPA**  
Chief, Division of Audits

November 29, 2023

**Schedule—**  
**Fiscal Year 2020-21 and Fiscal Year 2019-20**  
**Year-to-Date Lottery Revenue Allocations**

<b>Fiscal Year 2020-21</b>	<b>Three Months Ended 9/30/2020</b>	<b>% of Sales<sup>1</sup></b>	<b>Six Months Ended 12/31/2020</b>	<b>% of Sales<sup>1</sup></b>	<b>Nine Months Ended 3/31/2021</b>	<b>% of Sales<sup>1</sup></b>	<b>Twelve Months Ended 6/30/2021</b>	<b>% of Sales<sup>1</sup></b>
Sales	\$ 2,025,442,485	100.00%	\$ 3,890,623,608	100.00%	\$ 6,228,285,642	100.00%		
Prizes	1,374,317,474	67.85%	2,619,737,310	67.33%	4,139,431,337	66.46%		
Operating income	424,642,033	20.97%	832,487,855	21.40%	1,388,741,332	22.30%		
Revenues returned to public	1,798,959,507	88.82%	3,452,225,165	88.73%	5,528,172,669	88.76%		
Administrative expenses	226,482,978	11.18%	438,398,443	11.27%	700,112,973	11.24%		
Miscellaneous income <sup>2</sup>	10,151,995		14,534,351		18,532,272			
Adjustment	-		-		19,050,946 <sup>5</sup>			
<b>Allocation to Education Fund <sup>4</sup></b>	<b>\$ 434,794,028</b>		<b>\$ 847,022,206</b>		<b>\$ 1,426,324,550</b>			

<b>Fiscal Year 2019-20</b>	<b>Three Months Ended 9/30/2019</b>	<b>% of Sales<sup>1</sup></b>	<b>Six Months Ended 12/31/2019</b>	<b>% of Sales<sup>1</sup></b>	<b>Nine Months Ended 3/31/2020</b>	<b>% of Sales<sup>1</sup></b>	<b>Twelve Months Ended 6/30/2020</b>	<b>% of Sales<sup>1</sup></b>
Sales	\$ 1,663,239,267	100.00%	\$ 3,355,739,201	100.00%	\$ 4,981,760,628	100.00%	\$ 6,622,003,405	100.00%
Prizes	1,106,200,805	66.51%	2,223,100,423	66.25%	3,300,388,515	66.25%	4,403,715,159	66.50%
Operating income	359,504,052	21.61%	728,641,946	21.71%	1,083,119,336	21.74%	1,425,154,855	21.52%
Revenues returned to public	1,465,704,857	88.12%	2,951,742,369	87.96%	4,383,507,851	87.99%	5,828,870,014	88.02%
Administrative expenses	197,534,410	11.88%	403,996,832	12.04%	598,252,777	12.01%	793,133,391	11.98%
Miscellaneous income <sup>2</sup>	58,157,980		74,538,873		80,410,080		87,425,507	
Adjustment	-		-		23,480,097 <sup>3</sup>		(19,050,946) <sup>5</sup>	
<b>Allocation to Education Fund <sup>4</sup></b>	<b>\$ 417,662,032</b>		<b>\$ 803,180,819</b>		<b>\$ 1,187,009,513</b>		<b>\$ 1,493,529,416</b>	

Annual Statutory Revenue Allocation Percentage Requirements

Prize payouts – Not less than 50% of sales

Administrative expenses – Not more than 13% of sales

Prize payouts and funds to education – Not less than 87% of sales

Other income – 100% to education

<sup>1</sup> Statutory compliance is determined on an annual basis at fiscal year-end. The percentages displayed in the first three quarters are presented to show the Lottery's year-to-date progress toward complying with annual statutory requirements.

<sup>2</sup> Miscellaneous income includes Surplus Money Investment Fund interest earned, unclaimed prizes, and other income.

<sup>3</sup> This amount was withheld from the FY 2018-19 fourth-quarter transfer and was adjusted in the FY 2019-20 third-quarter transfer after the completion of the financial statement audit and resolution of accounting issues.

<sup>4</sup> The Lottery Education Fund allocation amount is sales plus miscellaneous income, plus the adjustment amount, less prizes, and less administrative expenses.

<sup>5</sup> This amount was withheld from the FY 2019-20 fourth-quarter transfer and was adjusted in the FY 2020-21 third-quarter transfer after the completion of the financial statement audit and resolution of accounting issues. The \$2 variance between this amount and the amount described in the Results section was due to rounding.



**Attachment—  
California State Lottery's  
Transfer Request Dated June 7, 2021**

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June 7, 2021

Natalie Sidarous, Chief  
Local Government Programs and Services Division  
State Controller's Office  
3301 C Street, Suite 740  
Sacramento, CA 95816

Dear Ms. Sidarous:

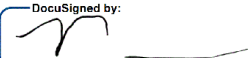
The California State Lottery requests that you transfer to the Lottery Education Fund for disbursement to the education community \$579,302,344. This figure represents:

Operating income for the nine months ended	
March 31, 2021	\$ 1,388,741,332
SMIF interest earned	2,829,304
Other income	146,415
Unclaimed prizes	<u>15,556,553</u>
	\$ 1,407,273,604
Less: Transfer for the six months ended	
December 31, 2020	<u>847,022,206</u>
	\$ 560,251,398
Add: Amount withheld from 2019-20 fiscal year	
pending audit	<u>\$ 19,050,946</u>
	<u>\$ 579,302,344</u>

We have attached a copy of the Statement of Revenues, Expenses, and Changes in Net Position for the nine months ended March 31, 2021, prepared from books without audit, for your files.

Please note, the above amount includes the funds withheld from the 2019-20 transfer pending audit.

Sincerely,

DocuSigned by:  


76B135F3ECC14F5...  
Nicholas Buchen, Deputy Director  
Finance Division

Attachment

cc: Alva V. Johnson, Director

**California State Lottery Fund**  
**Statement of Revenues, Expenses, and Changes in Net Fund Position**  
**For the Nine Months Ended March 31, 2021**

Operating revenues: Lottery sales	\$	6,228,285,642
Prizes	\$	<u>4,139,431,337</u>
Sales after prizes	\$	<u>2,088,854,305</u>
Less game costs:		
Retailer costs	\$	434,296,357
Gaming System costs	\$	72,182,801
Scratchers® game costs	\$	<u>39,273,558</u>
Total game costs	\$	<u>545,752,716</u>
Income before operating expenses	\$	<u>1,543,101,589</u>
Operating expenses:		
Salaries, wages and benefits	\$	71,572,518
Advertising	\$	41,034,901
Promotion, public relations and point of sale	\$	4,694,430
Other professional services	\$	12,890,078
Depreciation and amortization	\$	12,748,366
Other general and administrative expenses	\$	<u>11,419,964</u>
Total operating expenses	\$	<u>154,360,257</u>
Operating income	\$	<u>1,388,741,332</u>
Non-operating (expenses) revenues:		
Investment earnings (Note 9)	\$	(65,676,035)
Other Income	\$	146,415
Allocation to Education Fund (Note 7)	\$	<u>(1,391,717,052)</u>
Total non-operating (expenses) revenues	\$	<u>(1,457,246,672)</u>
Changes in net position	\$	(68,505,340)
Total net position - beginning of year	\$	<u>(81,457,353)</u>
Total net position - ending balance	\$	<u><u>(149,962,693)</u></u>

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250**

[www.sco.ca.gov](http://www.sco.ca.gov)