

# CALIFORNIA STATE LOTTERY

Review Report

## QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

*For the Quarter Ended September 30, 2021*



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

November 2024



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

November 14, 2024

Ms. Harjinder K. Shergill-Chima, Director  
California State Lottery  
700 North Tenth Street  
Sacramento, CA 95811

Dear Director Shergill-Chima:

The State Controller's Office reviewed the financial documentation supporting the California State Lottery's (Lottery) transfer of funds to the Lottery Education Fund for disbursement to the public education community for the quarter ended September 30, 2021. Our review found that the transfer amount of \$568,126,991 is supported by the Lottery's accounting records; and that the Lottery was on target to meet annual revenue allocation requirements for prize payouts, disbursement of funds to education, and administrative expenses, as specified in the California State Lottery Act of 1984, for the fiscal year ended June 30, 2022.

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

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

KAT/rs

Ms. Harjinder K. Shergill-Chima

November 14, 2024

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Copy: Florence Bernal, Chief Deputy Director  
California State Lottery  
Nicholas Buchen, Deputy Director, Finance Division  
California State Lottery  
Sara Sheikholislam, Deputy Director, Internal Audits  
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California State Lottery Commission  
Keetha Mills, Vice Chair  
California State Lottery Commission  
Gregory Ahern, Commissioner  
California State Lottery Commission  
Tiffani Alvidrez, Commissioner  
California State Lottery Commission  
Alexandre Rasouli, M.D., Commissioner  
California State Lottery Commission

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# Review Report

## Summary

The California State Lottery (Lottery) requested that the State Controller's Office (SCO) transfer \$568,126,991 to the Lottery Education Fund for disbursement to the public education community for the quarter ended September 30, 2021. Based on the work performed, we determined that the requested transfer amount is 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, disbursement of funds to education, and administrative expenses, as specified in the California State Lottery Act of 1984 (Lottery Act), for the fiscal year ended June 30, 2022.

## 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 September 30, 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 is 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 first quarter ended September 30, 2021. To achieve our objectives, we performed the following procedures:

- We compared fiscal year (FY) 2021-22 audited income statement balances with FY 2020-21 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 September 30, 2021.

## Results

Based on the work performed, we determined that the requested transfer amount of \$568,126,991 for the first quarter ended September 30, 2021, is 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, disbursement of funds to education, and administrative expenses, as specified in the Lottery Act, for the fiscal year ended June 30, 2022.

In a letter dated December 7, 2021, the Lottery requested that the SCO transfer \$568,126,991 to the Lottery Education Fund for disbursement to the public education community. On December 27, 2021 the SCO's Local Government Programs and Services Division transferred \$587,177,937 from the State Lottery Fund to the Lottery Education Fund. On December 30, 2021, \$587,177,937 was disbursed to the public education community.

The difference of \$19,050,946 is a year-end adjustment amount that had been 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 in the FY 2020-21 third-quarter transfer due to SCO computer system issues.

For the three months ended September 30, 2021, of the total revenues from ticket sales:

- 65.85% was returned to the public in the form of prize payouts;
- 22.64% was transferred to the public education community; and
- 11.51% was used for administrative expenses.

The Lottery returned 88.49% 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. As there are no findings, the Lottery waived the exit conference and draft report. We agreed that 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 A. Tarvin, CPA  
Chief, Division of Audits

November 14, 2024

**Schedule—**  
**Fiscal Year 2021-22 and Fiscal Year 2020-21**  
**Year-to-Date Lottery Revenue Allocations**

Fiscal Year 2021-22	Three Months Ended 9/30/2021	% of Sales <sup>1</sup>	Six Months Ended 12/31/2021	% of Sales <sup>1</sup>	Nine Months Ended 3/31/2022	% of Sales <sup>1</sup>	Twelve Months Ended 6/30/2022	% of Sales <sup>1</sup>
Sales	\$ 2,395,937,360	100.00%						
Prizes	1,577,728,684	65.85%						
Operating income	542,456,488	22.64%						
Revenues returned to public	2,120,185,172	88.49%						
Administrative expenses	275,752,188	11.51%						
Miscellaneous income <sup>2</sup>	25,670,503							
Adjustment	-							
<b>Allocation to Education Fund <sup>4</sup></b>	<b>\$ 568,126,991</b>		<b>\$ -</b>		<b>\$ -</b>		<b>\$ -</b>	

Fiscal Year 2020-21	Three Months Ended 9/30/2020	% of Sales <sup>1</sup>	Six Months Ended 12/31/2020	% of Sales <sup>1</sup>	Nine Months Ended 3/31/2021	% of Sales <sup>1</sup>	Twelve Months Ended 6/30/2021	% of Sales <sup>1</sup>
Sales	\$2,025,442,485	100.00%	\$3,890,623,608	100.00%	\$6,228,285,642	100.00%	\$8,417,943,817	100.00%
Prizes	1,374,317,474	67.85%	2,619,737,310	67.33%	4,139,431,337	66.46%	5,610,605,541	66.65%
Operating income	424,642,033	20.97%	832,487,855	21.40%	1,388,741,332	22.30%	1,857,730,878	22.07%
Revenues returned to public	1,798,959,507	88.82%	3,452,225,165	88.73%	5,528,172,669	88.76%	7,468,336,419	88.72%
Administrative expenses	226,482,978	11.18%	438,398,443	11.27%	700,112,973	11.24%	949,607,397	11.28%
Miscellaneous income <sup>2</sup>	10,151,995		14,534,351		18,532,272		24,823,527	
Adjustment	-		-		19,050,946 <sup>3</sup>		(14,280,801) <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>\$1,868,273,605</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 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.

<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 2020-21 fourth-quarter transfer, and will be adjusted in a subsequent quarter transfer after the completion of the financial statement audit and resolution of accounting issues.



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

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December 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:

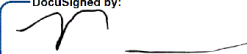
The California State Lottery requests that you transfer to the Lottery Education Fund for disbursement to the education community \$568,126,991. This figure represents:

Operating income for the three months ended September 30, 2021	\$ 542,456,488
SMIF interest earned	529,748
Other income	1,321
Unclaimed prizes	<u>25,139,434</u>
	<u>\$ 568,126,991</u>

We have attached a copy of the Statement of Revenues, Expenses, and Changes in Net Position for the three months ended September 30, 2021, prepared from books without audit, for your files.

Please note, the amount withheld from the 2020-21 transfer pending audit will be transferred in a subsequent quarter after the June 2021 audit is complete.

Sincerely,

DocuSigned by:  
  
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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 Three Months Ended September 30, 2021**

Operating revenues: Lottery sales	\$	2,395,937,360
Prizes	\$	<u>1,577,728,684</u>
Sales after prizes	\$	<u>818,208,676</u>
Less game costs:		
Retailer costs	\$	164,772,277
Gaming System costs	\$	26,216,197
Scratchers® game costs	\$	<u>18,780,843</u>
Total game costs	\$	<u>209,769,317</u>
Income before operating expenses	\$	<u>608,439,359</u>
Operating expenses:		
Salaries, wages and benefits	\$	27,976,064
Advertising	\$	23,628,381
Promotion, public relations and point of sale	\$	2,003,583
Other professional services	\$	4,068,421
Depreciation and amortization	\$	4,052,899
Other general and administrative expenses	\$	<u>4,253,523</u>
Total operating expenses	\$	<u>65,982,871</u>
Operating income	\$	<u>542,456,488</u>
Non-operating (expenses) revenues:		
Investment earnings (Note 9)	\$	(5,416,488)
Other Income	\$	1,321
Allocation to Education Fund (Note 7)	\$	<u>(542,987,557)</u>
Total non-operating (expenses) revenues	\$	<u>(548,402,724)</u>
Changes in net position	\$	(5,946,236)
Total net position - beginning of year	\$	<u>(138,432,844)</u>
Total net position - ending balance	\$	<u><u>(144,379,080)</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)