

CALIFORNIA STATE LOTTERY

Review Report

QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

For the Quarter Ended March 31, 2022



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

November 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

November 22, 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 March 31, 2022. Our review found that the transfer amount of \$528,140,345 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 Lottery Act, for the fiscal year ended June 30, 2022.

If you have any questions regarding this report, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at 916-323-5744, or email at respilla@sco.ca.gov. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/lS

Ms. Harjinder K. Shergill-Chima

November 22, 2024

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Copy: Florence Bernal, Chief Deputy Director
California State Lottery
Nicholas Buchen, Deputy Director
Finance Division
California State Lottery
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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 \$528,140,345 to the Lottery Education Fund for disbursement to the public education community for the quarter ended March 31, 2022. 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 Lottery Act, for the fiscal year ended June 30, 2022.

Background

In 1984, California voters passed Proposition 37, authorizing the creation of a state-operated lottery. Proposition 37 created the Lottery Act, codified in the Government Code section 8880 et seq. The Lottery Act requires the quarterly transfer of a portion of revenues to the public education community and establishes the allocation percentages for lottery revenues.

The Lottery Act requires revenues from the Lottery to be allocated to maximize the amount of funding allocated to the public education community. As amended by Assembly Bill 142 (Chapter 13, Statutes of 2010), 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 disbursement of 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. This report includes the transfer request for the quarter ended March 31, 2022, 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 third quarter ended March 31, 2022. To achieve our objectives, we performed the following procedures:

- We compared current fiscal year audited income statement balances with prior fiscal year 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 them to supporting documentation. Results were not projected to the intended (total) population.
- We determined whether the Lottery was on target to meet the annual revenue allocation requirements specified in the Lottery Act.
- We verified that the requested amount had been transferred to the Lottery Education Fund.
- We verified that the funds had been transferred from the Lottery Education Fund to the public education community.

Results

Based on the work performed, we determined that the requested transfer amount of \$528,140,345 for the third quarter ended March 31, 2022 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 June 3, 2022, the Lottery requested that the SCO transfer \$528,140,345 to the Lottery Education Fund for disbursement to the public education community. On June 23, 2022, the SCO's Local Government Programs and Services Division transferred \$528,140,345 from the State Lottery Fund to the Lottery Education Fund, and as a result of the SCO's apportionment process, the entire amount was disbursed to the public education community.

For the nine months ended March 31, 2022, of the total revenues from ticket sales:

- 65.98% was returned to the public in the form of prize payouts;
- 22.56% was transferred to the public education community; and
- 11.45% was used for administrative expenses.

The Lottery returned 88.55% of total revenues from ticket sales in the form of prize payouts and disbursement of 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 could 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.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

November 22, 2024

Schedule—
Fiscal Year 2021-22 and Fiscal Year 2020-21
Year-to-Date Lottery Revenue Allocations
As of March 31, 2022

Fiscal Year 2021-22	Three Months Ended 9/30/2021	% of Sales ¹	Six Months Ended 12/31/2021	% of Sales ¹	Nine Months Ended 3/31/2022	% of Sales ¹	Twelve Months Ended 6/30/2022	% of Sales ¹
Sales	\$ 2,395,937,360	100.00%	\$ 4,533,125,189	100.00%	\$ 6,806,198,841	100.00%		
Prizes	1,577,728,684	65.85%	2,986,801,701	65.89%	4,490,930,996	65.98%		
Operating income	542,456,488	22.64%	1,018,287,217	22.46%	1,535,670,659	22.56%		
Revenues returned to public	2,120,185,172	88.49%	4,005,088,918	88.35%	6,026,601,655	88.55%		
Administrative expenses	275,752,188	11.51%	528,036,271	11.65%	779,597,186	11.45%		
Miscellaneous income ²	25,670,503		37,498,282		48,255,185			
Adjustment	-		-		-			
Allocation to Education Fund ³	\$ 568,126,991		\$ 1,055,785,499		\$ 1,583,925,844			

Fiscal Year 2020-21	Three Months Ended 9/30/2020	% of Sales ¹	Six Months Ended 12/31/2020	% of Sales ¹	Nine Months Ended 3/31/2021	% of Sales ¹	Twelve Months Ended 6/30/2021	% of Sales ¹
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 ⁵	11.28%
Miscellaneous income ²	10,151,995		14,534,351		18,532,272		24,823,527	
Adjustment	-		-		19,050,946 ⁴		(14,280,801) ⁶	
Allocation to Education Fund ³	\$ 434,794,028		\$ 847,022,206		\$ 1,426,324,550		\$ 1,868,273,605	

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 disbursement of funds to education – Not less than 87% of sales

Other income – 100% to education

¹ 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 meeting annual statutory requirements.

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

³ The Education Fund allocation amount is sales, plus miscellaneous income, plus the adjustment amount, less prizes, and less administrative expenses.

⁴ This amount was withheld from the fiscal year (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.

⁵ Minor calculation difference is due to rounding.

⁶ 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 June 3, 2022**



June 3, 2022

Natalie Sidarous, Chief
Local Government Programs and Services Division
State Controller's Office
3301 C Street, Suite 700
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 \$528,140,345. This figure represents:

Operating income for the nine months ended March 31, 2022	\$ 1,535,670,659
SMIF interest earned	2,023,682
Other income	52,242
Unclaimed prizes	<u>46,179,261</u>
	\$ 1,583,925,844
Less: Transfer for the six months ended December 31, 2021	<u>1,055,785,499</u>
	<u>\$ 528,140,345</u>

We have attached a copy of the Statement of Revenues, Expenses, and Changes in Net Position for the nine months ended March 31, 2022, prepared from books without audit, for your files.

Please note, the amount withheld from the 2020-21 transfer pending audit will be included in a subsequent transfer 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
Statement of Revenues, Expenses, and Changes in Net Fund Position
For the Nine Months Ended March 31, 2022

Operating revenues: Lottery Sales	\$	6,806,198,841
Prizes	\$	4,490,930,996
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Sales after prizes	\$	2,315,267,845
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Less game costs:		
Retailer costs	\$	474,279,497
Gaming system costs	\$	77,948,858
Scratchers game costs	\$	36,515,620
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Total game costs	\$	588,743,975
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Income before operating expenses	\$	1,726,523,870
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Operating expenses:		
Salaries, wages, and benefits	\$	80,879,243
Advertising	\$	66,666,112
Promotion, public relations, and point of sale	\$	5,944,516
Other professional services	\$	12,303,119
Depreciation and amortization	\$	12,043,522
Other general & administrative expenses	\$	13,016,699
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Total operating expenses	\$	190,853,211
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Operating Income	\$	1,535,670,659
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Non-operating (expenses) revenues:		
Investment Earnings (Note 9)	\$	(60,641,456)
Other Income	\$	52,242
Allocation to Education Fund (Note 7)	\$	(1,537,746,583)
		<hr/>
Total non-operating (expenses) revenues	\$	(1,598,335,797)
		<hr/>
Changes in net position	\$	(62,665,138)
Total net position-beginning balance	\$	(138,432,844)
Total net position-ending balance	\$	(201,097,982)

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

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