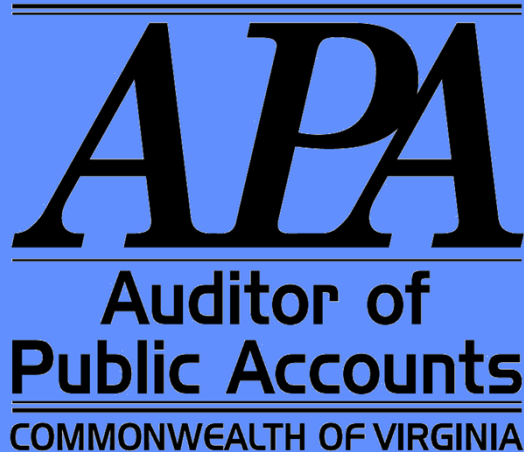


VIRGINIA STATE LOTTERY DEPARTMENT

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**



AUDIT SUMMARY

Our audit of the Virginia State Lottery Department (Lottery) for the year ended June 30, 2011, found:

- the financial statements are presented fairly, in all material respects
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards

We have audited the basic financial statements of the Virginia State Lottery Department (Lottery) as of and for the year ended June 30, 2011, and issued our report thereon, dated August 15, 2011. Our report is included in the Lottery's Annual Report that it anticipates releasing on or around October, 2011.

– TABLE OF CONTENTS –

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR’S REPORT:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	1-2
BOARD MEMBERS AND AGENCY OFFICIALS	3



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 15, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Members
Virginia State Lottery Board

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the basic financial statements of the **Virginia State Lottery Department** (Lottery) as of and for the year ended June 30, 2011, and have issued our report thereon dated August 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Lottery is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Status of Prior Findings

The Lottery has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, Virginia State Lottery Board and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on September 8, 2011.

AUDITOR OF PUBLIC ACCOUNTS

EJR/alh

VIRGINIA STATE LOTTERY DEPARTMENT

BOARD MEMBERS

As of June 30, 2011

Gilliam M. Cobbs
Chairman

Cynthia D. Lawrence David H. Hallock, Jr.
Albert H. Poole

AGENCY OFFICIALS

Paula I. Otto
Executive Director