

August 28, 1998

The Members of the Virginia State Lottery Board
900 East Main Street
Richmond, Virginia

Independent Auditor's Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the Virginia Lottery Department and the other member lotteries in the states of Georgia, Illinois, Maryland, Massachusetts, and Michigan (referred to as the "Member Lotteries") who operate the Big Game, solely to assist the Virginia Lottery and Member Lotteries with respect to the evaluation of the following financial information associated with the Big Game: Virginia Lottery's sales and prize expense for the period April 1, 1997 through March 31, 1998, and the Virginia Lottery's receivable or payable as of March 31, 1998. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures prescribed below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

- A. We obtained from the Virginia Lottery the "Weekly Activity" and the "Low-Tier Prize Analysis" for the period April 1, 1997 to March 31, 1998, and attached those as Exhibit I and II, respectively. We verified the mathematical accuracy of the schedules and found them to be accurate.
- B. We randomly selected five weekly drawings from the period April 1, 1997 to March 31, 1998, for testing as indicated in "C", "D", and "E" below.
- C. For each weekly drawing selected, we compared the total amount of sales as shown on the daily sales report produced by the Virginia Lottery's gaming system and the total amount of sales shown on the related daily sales report produced by the Internal Control System (ICS) with the balance listed in the "Sales" column for the respective week on the "Weekly Activity" report attached as Exhibit I and found them to be in agreement.

- D. We calculated the total dollar amount of the low-tier prizes for the weekly drawings selected based on the total number of winners from the Virginia Lottery's gaming system for each prize level and the prize structure of the Big Game's low-tier prizes (as defined in the official game rules). We compared the calculated expense with the amount listed in the "Actual Low-Tier Prizes" column for the respective week on the attached "Weekly Activity" report and found them to be in agreement.
- E. For each weekly drawing selected, we compared the amount of sales, actual low-tier prizes and share of low-tier prizes shown on the "Weekly Activity" report to the amounts shown on the applicable Big Game Prize Settlement Reports and found them to be in agreement.
- F. The amount shown as the total of the actual low-tier prizes and the total of the share of low-tier prizes on the "Weekly Activity" report were compared to the applicable amounts shown on the "Low-Tier Prize Analysis" (Exhibit II) and found them to be in agreement.
- G. For each amount (if any) listed in the "Cost of Jackpot Prizes" column on the attached "Weekly Activity" report, we compared the "cost of jackpot prize" amount to the Virginia Lottery's cash disbursement subsidiary records which summarize the funds dispersed to the prize winner and the broker from which the jackpot annuities were purchased and found them to be in agreement.
- H. For each purchase (if any) of investments associated with the jackpot prizes:
 - 1) We obtained broker confirmations and noted that the investments were properly funded solely through the purchase of 100 percent United States Government STRIP Bonds; and
 - 2) We obtained the bid sheets and supporting documentation and noted that the investments were purchased properly through a competitive bidding process involving a minimum of three primary brokerage firms.
- I. We compared the total of the quarterly transfers to the Virginia Lottery for settlement of the low-tier prize liability as shown in the Virginia Lottery's cash disbursement subsidiary records to the amount listed in the "Transfers" column on the "Low-Tier Prize Analysis" report attached as Exhibit II and found them to be in agreement.
- J. We compared the balance listed as the Virginia Lottery's receivable or payable as of March 31, 1998, for the low-tier prizes as shown on the "Low-Tier Prize Analysis" report to the Virginia Lottery's financial accounting records and to the Big Game Weekly Prize Settlement Report as of March 31, 1998, and found them to be in agreement.

We were not engaged to, and did not perform an audit or an examination, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion here. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

AUDITOR OF PUBLIC ACCOUNTS

KKH:pym
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Exhibit I

**The Big Game
Virginia State Lottery Department
Weekly Activity
For the Period Ending March 31, 1998**

| Draw Dates | Sales | Actual Low-Tier Prizes | Share of Low-Tier Prizes | Cost of Jackpot Prizes (Purchased by Virginia) |
|-----------------------|--------------|-----------------------------------|-------------------------------------|---|
| 4/04/97 | \$ 5,526,085 | \$ 1,349,594 | \$ 1,147,924 | \$ - |
| 4/11/97 | 1,023,529 | 133,401 | 319,373 | - |
| 4/18/97 | 1,068,559 | 152,436 | 196,364 | - |
| 4/25/97 | 1,085,029 | 167,193 | 149,272 | - |
| 5/02/97 | 1,194,583 | 172,386 | 321,939 | - |
| 5/09/97 | 1,351,138 | 190,017 | 266,548 | - |
| 5/16/97 | 1,636,019 | 417,196 | 377,603 | - |
| 5/23/97 | 885,041 | 270,589 | 162,359 | - |
| 5/30/97 | 950,761 | 271,028 | 165,049 | - |
| 6/06/97 | 1,064,856 | 151,064 | 187,976 | - |
| 6/13/97 | 1,083,250 | 457,581 | 227,312 | - |
| 6/20/97 | 788,044 | 109,682 | 106,387 | - |
| 6/27/97 | 815,779 | 249,841 | 137,480 | - |
| 7/04/97 | 833,161 | 113,665 | 196,539 | - |
| 7/11/97 | 931,581 | 125,243 | 135,076 | - |
| 7/18/97 | 1,049,379 | 124,956 | 212,687 | - |
| 7/25/97 | 725,159 | 247,016 | 179,670 | - |
| 8/01/97 | 707,777 | 90,059 | 115,036 | - |
| 8/08/97 | 674,755 | 108,546 | 132,828 | - |
| 8/15/97 | 706,429 | 242,513 | 200,874 | - |
| 8/22/97 | 777,584 | 484,990 | 311,839 | - |
| 8/29/97 | 872,779 | 136,300 | 165,357 | - |
| 9/05/97 | 935,365 | 145,132 | 223,636 | - |
| 9/12/97 | 1,071,300 | 304,927 | 187,791 | - |
| 9/19/97 | 678,111 | 80,397 | 80,580 | - |
| 9/26/97 | 656,917 | 239,552 | 138,974 | - |
| 10/03/97 | 731,051 | 138,718 | 140,475 | - |
| 10/10/97 | 798,699 | 105,833 | 166,493 | - |
| 10/17/97 | 849,609 | 115,044 | 127,621 | - |
| 10/24/97 | 923,393 | 115,076 | 151,226 | - |
| 10/31/97 | 624,335 | 267,257 | 134,280 | - |
| 11/07/97 | 672,083 | 82,977 | 123,201 | - |
| 11/14/97 | 720,242 | 100,783 | 151,307 | - |
| 11/21/97 | 745,174 | 101,665 | 155,152 | 8,793,880 |
| 11/28/97 | 589,472 | 401,829 | 212,442 | - |
| 12/05/97 | 652,198 | 100,302 | 113,432 | - |
| 12/12/97 | 687,511 | 126,987 | 246,342 | - |

| Draw Dates | Sales | Actual Low-Tier Prizes | Share of Low-Tier Prizes | Cost of Jackpot Prizes (Purchased by Virginia) |
|-----------------------|--------------------------|-----------------------------------|-------------------------------------|---|
| 12/19/97 | 584,601 | 86,542 | 82,368 | - |
| 12/26/97 | 598,673 | 225,355 | 109,112 | - |
| 1/02/98 | 666,859 | 252,142 | 130,273 | - |
| 1/09/98 | 786,949 | 253,288 | 195,977 | - |
| 1/16/98 | 880,917 | 280,497 | 231,529 | - |
| 1/23/98 | 585,320 | 243,600 | 137,780 | - |
| 1/30/98 | 613,436 | 102,039 | 90,894 | - |
| 2/06/98 | 689,736 | 112,118 | 163,002 | - |
| 2/10/98 | 336,860 | 53,868 | 103,778 | - |
| 2/13/98 | 695,100 | 100,242 | 127,313 | - |
| 2/17/98 | 484,768 | 62,191 | 65,805 | - |
| 2/20/98 | 567,801 | 87,146 | 160,297 | - |
| 2/24/98 | 396,158 | 39,990 | 70,649 | - |
| 2/27/98 | 608,108 | 70,614 | 78,540 | - |
| 3/03/98 | 495,017 | 219,565 | 88,908 | - |
| 3/06/98 | 700,719 | 88,517 | 107,133 | - |
| 3/10/98 | 572,463 | 82,419 | 211,163 | - |
| 3/13/98 | 917,593 | 157,951 | 170,740 | - |
| 3/17/98 | 815,591 | 118,039 | 127,160 | - |
| 3/20/98 | 1,074,115 | 169,890 | 228,745 | - |
| 3/24/98 | 1,014,129 | 289,262 | 252,231 | - |
| 3/27/98 | 1,242,874 | 157,980 | 242,611 | - |
| 3/31/98 | 1,227,666 | 307,241 | 214,568 | - |
| TOTAL | \$ 53,642,190 | \$ 11,752,271 | \$ 11,159,020 | \$ 8,793,880 |

Exhibit II

**The Big Game
Low-Tier Prize Analysis
For the Period Ending March 31, 1998**

| | Balance as of April 1, 1997 Receivable Payable | Actual Low-Tier Prizes | Share of Low-Tier Prizes | Transfers | Balance as of March 31, 1998 Receivable Payable |
|----------------------|---|---------------------------------------|---|------------------|--|
| Georgia | \$ (471,787) | \$ 19,202,984 | \$ 20,181,907 | \$ 541,320 | \$ (909,390) |
| Illinois | 46,615 | 18,740,382 | 19,038,659 | (126,279) | (377,941) |
| Michigan | (223,754) | 24,503,146 | 24,027,990 | 870,336 | 1,121,738 |
| Massachusetts | (80,268) | 7,409,505 | 7,932,571 | 1,938 | (601,396) |
| Maryland | 53,668 | 11,019,876 | 10,288,017 | (285,367) | 500,160 |
| Virginia | 675,526 | 11,752,271 | 11,159,020 | (1,001,948) | 266,829 |
| TOTAL | \$ - | \$ 92,628,164 | \$ 92,628,164 | \$ - | \$ - |