

**STATE LOTTERY DEPARTMENT
RICHMOND, VIRGINIA**

**REPORT ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2002 THROUGH MARCH 31, 2003**



August 15, 2003

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, Michigan, New Jersey, New York, Ohio, and Washington (referred to as the "Member Lotteries") who operate Mega Millions, solely to assist the Virginia Lottery and Member Lotteries with respect to the evaluation of the following financial information associated with Mega Millions: Virginia Lottery's sales and prize expense for the period April 1, 2002 through March 31, 2003, and the Virginia Lottery's receivable or payable as of March 31, 2003. Virginia Lottery is responsible for its records of the financial information associated with Mega Millions. This engagement to apply agreed-upon procedures was performed in accordance with attestation 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 Mega Millions "Draw Activity" and the "Fixed Prize Analysis" for the period April 1, 2002 through March 31, 2003, and attached those as Exhibit I and II, respectively. We verified the mathematical accuracy of the schedules.
- B. We randomly selected five Mega Millions drawings from the period April 1, 2002 to March 31, 2003, for testing as indicated in "C", "D", and "E" below.
- C. For each 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 "Draw Activity" report attached as Exhibit I and found them to be in agreement.

- D. We calculated the total dollar amount of the fixed prizes for the 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 Mega Millions' fixed prizes (as defined in the official game rules). We compared the calculated expense with the amount listed in the "Actual Fixed Prizes" column for the respective drawing on the attached "Draw Activity" report and found them to be in agreement.
- E. For each drawing selected, we compared the amount of sales, actual fixed prizes, and share of fixed prizes shown on the "Draw Activity" report to the amounts shown on the applicable Mega Millions Prize Settlement Reports and found them to be in agreement.
- F. For the period identified in step "B" above, we randomly selected two months and obtained the "Expired Prize Settlement Report" distributed by the Virginia Lottery. For the two months selected, we obtained from the Virginia Lottery ICS the actual fixed prizes awarded and the prizes unclaimed. We compared the ICS data back to the data reported from the Virginia Lottery for each draw of the subject months to ensure they are in agreement.
- G. The amount shown as the total of the actual fixed prizes and the total of the share of fixed prizes on the "Draw Activity" report were compared to the applicable amounts shown on the "Fixed Prize Analysis" (Exhibit II) and found to be in agreement.
- H. For each amount (if any) listed in the "Cost of Jackpot Prizes" column on the attached "Draw 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.
- I. For each purchase (if any) of investments associated with jackpot prizes, we obtained:
- 1) broker confirmations and noted that the investments were properly funded solely through the purchase of 100 percent United States Government STRIP Bonds;
 - 2) 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; and
 - 3) the Security Purchase report, which lists the results of the security purchase and verified that the information reported to the group is accurate, including the annuity factor for the non-winning bidders.
- J. We compared the total of the quarterly transfers to the Virginia Lottery for settlement of the fixed prize liability as shown in the Virginia Lottery's cash disbursement subsidiary records to the amount listed in the "Transfers" column on

the "Fixed Prize Analysis" report attached as Exhibit II and found them to be in agreement.

- K. We compared the balance listed as the Virginia Lottery's receivable or payable as of March 31, 2003, for the fixed prizes as shown on the "Fixed Prize Analysis" report to the Virginia Lottery's financial accounting records and to the Mega Millions Prize Settlement Report as of March 31, 2003, 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 financial information associated with Mega Millions. Accordingly, we do not express such an opinion. 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 information and use of the Virginia Lottery and Member Lotteries specified above and is not intended to be and should not be used by anyone other than these specified parties.

AUDITOR OF PUBLIC ACCOUNTS

KKH:kva
kva:35

Mega Millions
Virginia State Lottery Department
Draw Activity
For the Period Ending March 31, 2003

| Draw Dates | Sales | Actual Fixed Prizes | Share of Fixed Prizes | Cost of Jackpot Prizes Purchased by Virginia |
|------------|--------------|---------------------|-----------------------|--|
| 04/02/02 | \$ 2,086,573 | \$ 204,044 | \$ 325,796 | \$ - |
| 04/05/02 | 3,476,678 | 527,134 | 516,624 | - |
| 04/09/02 | 5,114,538 | 763,559 | 1,009,331 | - |
| 04/12/02 | 10,549,722 | 1,518,791 | 1,786,931 | - |
| 04/16/02 | 15,367,551 | 2,375,115 | 2,852,253 | - |
| 04/19/02 | 1,140,259 | 271,846 | 208,544 | - |
| 04/23/02 | 845,955 | 97,283 | 95,799 | - |
| 04/26/02 | 889,422 | 240,597 | 190,660 | - |
| 04/30/02 | 733,791 | 380,928 | 180,409 | - |
| 05/03/02 | 761,117 | 73,389 | 136,783 | - |
| 05/07/02 | 746,285 | 99,939 | 99,910 | - |
| 05/10/02 | 794,686 | 76,468 | 131,845 | - |
| 05/14/02 | 767,087 | 75,322 | 95,561 | - |
| 05/17/02 | 825,364 | 271,984 | 192,365 | - |
| 05/21/02 | 643,621 | 73,267 | 115,317 | - |
| 05/24/02 | 679,795 | 65,642 | 117,357 | - |
| 05/28/02 | 568,665 | 77,530 | 83,368 | - |
| 05/31/02 | 651,943 | 63,233 | 87,529 | - |
| 06/04/02 | 632,083 | 62,532 | 102,176 | - |
| 06/07/02 | 714,647 | 111,927 | 103,999 | - |
| 06/11/02 | 715,588 | 85,400 | 118,145 | - |
| 06/14/02 | 823,771 | 105,111 | 119,816 | - |
| 06/18/02 | 869,302 | 109,528 | 197,515 | - |
| 06/21/02 | 1,003,901 | 118,896 | 220,623 | - |
| 06/25/02 | 1,020,958 | 292,943 | 219,191 | - |
| 06/28/02 | 1,202,980 | 140,523 | 187,297 | - |
| 07/02/02 | 1,403,586 | 174,429 | 254,837 | - |
| 07/05/02 | 1,569,133 | 353,408 | 275,134 | - |
| 07/09/02 | 2,085,439 | 914,455 | 391,060 | - |
| 07/12/02 | 2,408,063 | 281,131 | 424,587 | - |
| 07/16/02 | 2,838,940 | 628,881 | 490,671 | - |
| 07/19/02 | 866,375 | 278,414 | 145,652 | - |
| 07/23/02 | 764,764 | 104,540 | 178,403 | - |
| 07/26/02 | 816,313 | 87,465 | 109,629 | - |
| 07/30/02 | 822,615 | 116,788 | 188,999 | - |
| 08/02/02 | 922,495 | 134,719 | 241,283 | - |
| 08/06/02 | 951,718 | 106,769 | 164,923 | - |
| 08/09/02 | 1,031,057 | 119,989 | 237,425 | - |
| 08/13/02 | 1,050,370 | 654,123 | 312,835 | - |
| 08/16/02 | 1,148,219 | 116,240 | 230,151 | - |
| 08/20/02 | 1,215,446 | 157,428 | 220,557 | - |
| 08/23/02 | 1,419,595 | 315,635 | 234,718 | - |
| 08/27/02 | 1,663,848 | 586,567 | 332,708 | - |
| 08/30/02 | 812,661 | 78,658 | 116,549 | - |
| 09/03/02 | 720,299 | 70,784 | 140,977 | - |
| 09/06/02 | 789,470 | 77,624 | 113,457 | - |
| 09/10/02 | 688,400 | 108,950 | 204,540 | - |
| 09/13/02 | 732,319 | 93,064 | 113,196 | - |
| 09/17/02 | 713,444 | 286,418 | 187,231 | - |
| 09/20/02 | 788,554 | 384,712 | 245,132 | - |
| 09/24/02 | 798,052 | 86,575 | 97,488 | - |
| 09/27/02 | 852,621 | 277,839 | 183,285 | - |
| 10/01/02 | 656,029 | 76,017 | 79,720 | - |
| 10/04/02 | 684,226 | 65,364 | 93,924 | - |

Mega Millions
Virginia State Lottery Department
Draw Activity
For the Period Ending March 31, 2003

| Draw Dates | Sales | Actual Fixed Prizes | Share of Fixed Prizes | Cost of Jackpot Prizes Purchased by Virginia |
|------------|----------------|---------------------|-----------------------|--|
| 10/08/02 | 666,842 | 247,357 | 134,877 | - |
| 10/11/02 | 717,873 | 89,463 | 174,627 | - |
| 10/15/02 | 710,285 | 92,535 | 126,968 | - |
| 10/18/02 | 791,527 | 67,808 | 97,426 | - |
| 10/22/02 | 801,538 | 81,126 | 142,429 | - |
| 10/25/02 | 919,250 | 277,767 | 190,155 | - |
| 10/29/02 | 930,972 | 112,822 | 126,182 | - |
| 11/01/02 | 1,116,066 | 128,115 | 183,499 | - |
| 11/05/02 | 1,179,387 | 131,703 | 178,213 | - |
| 11/08/02 | 1,548,017 | 519,702 | 282,211 | - |
| 11/12/02 | 659,631 | 66,918 | 71,614 | - |
| 11/15/02 | 692,132 | 57,355 | 137,980 | - |
| 11/19/02 | 652,651 | 72,567 | 121,083 | - |
| 11/22/02 | 639,325 | 272,996 | 149,777 | - |
| 11/26/02 | 616,289 | 70,982 | 118,509 | - |
| 11/29/02 | 642,005 | 64,930 | 101,388 | - |
| 12/03/02 | 706,528 | 73,140 | 101,894 | - |
| 12/06/02 | 661,481 | 62,580 | 70,293 | - |
| 12/10/02 | 733,612 | 131,130 | 256,184 | - |
| 12/13/02 | 806,176 | 88,003 | 135,689 | - |
| 12/17/02 | 859,398 | 103,365 | 131,318 | - |
| 12/20/02 | 1,038,896 | 98,710 | 173,915 | - |
| 12/24/02 | 1,551,304 | 160,150 | 245,641 | - |
| 12/27/02 | 732,042 | 267,363 | 185,049 | - |
| 12/31/02 | 778,991 | 76,079 | 154,017 | - |
| 01/03/03 | 729,784 | 446,223 | 252,340 | - |
| 01/07/03 | 726,348 | 69,313 | 100,609 | - |
| 01/10/03 | 796,254 | 86,837 | 127,262 | - |
| 01/14/03 | 787,061 | 78,004 | 117,880 | - |
| 01/17/03 | 835,205 | 90,330 | 189,064 | - |
| 01/21/03 | 879,320 | 98,806 | 118,630 | - |
| 01/24/03 | 922,893 | 130,490 | 162,829 | - |
| 01/28/03 | 1,007,368 | 109,479 | 145,374 | - |
| 01/31/03 | 1,155,141 | 356,943 | 327,905 | - |
| 02/04/03 | 1,466,794 | 374,382 | 379,761 | - |
| 02/07/03 | 1,815,496 | 396,094 | 359,057 | - |
| 02/11/03 | 2,063,456 | 387,890 | 459,847 | - |
| 02/14/03 | 806,536 | 291,567 | 177,412 | - |
| 02/18/03 | 566,690 | 82,994 | 118,092 | - |
| 02/21/03 | 683,756 | 70,943 | 106,900 | - |
| 02/25/03 | 665,251 | 64,421 | 120,006 | - |
| 02/28/03 | 693,507 | 251,868 | 124,021 | - |
| 03/04/03 | 759,441 | 82,018 | 95,259 | - |
| 03/07/03 | 809,061 | 84,591 | 114,597 | - |
| 03/11/03 | 827,939 | 102,626 | 145,800 | - |
| 03/14/03 | 927,998 | 136,707 | 136,189 | - |
| 03/18/03 | 647,324 | 72,907 | 83,755 | - |
| 03/21/03 | 655,495 | 72,697 | 110,527 | - |
| 03/25/03 | 640,610 | 610,233 | 187,293 | - |
| 03/28/03 | 715,783 | 110,324 | 129,456 | - |
| TOTAL | \$ 128,577,062 | \$23,093,270 | \$ 23,685,018 | \$ - |

Exhibit II

Mega Millions
 Virginia State Lottery Department
 Fixed Prize Analysis
 For the Period Ending March 31, 2003

| | April 1, 2002 Receivable (Payable) | Actual Fixed Prizes | Share of Fixed Prizes | Settlements Transfers In (Out) | March 31, 2003 Receivable (Payable) |
|---------------|--|------------------------|--------------------------|--------------------------------------|---|
| Georgia | \$ 484,802 | \$ 33,715,494 | \$ 34,498,614 | \$ 10,281 | \$ (308,599) |
| Illinois | (49,945) | 45,064,833 | 44,812,418 | 507,551 | (305,081) |
| Massachusetts | 746,104 | 22,348,831 | 21,576,152 | 1,398,127 | 120,656 |
| Maryland | (676,849) | 17,621,667 | 15,877,363 | 1,278,941 | (211,486) |
| Michigan | (939,825) | 34,507,437 | 35,220,964 | (1,346,287) | (307,065) |
| New Jersey | (150,543) | 57,184,093 | 58,239,777 | (2,053,276) | 847,049 |
| New York | - | 72,542,142 | 70,892,975 | 1,753,564 | (104,397) |
| Ohio | - | 26,592,013 | 27,181,859 | (541,885) | (47,961) |
| Virginia | 586,256 | 23,093,270 | 23,685,018 | (346,981) | 341,489 |
| Washington | - | 4,880,932 | 5,565,572 | (660,035) | (24,605) |
| Total | \$ - | \$337,550,712 | \$ 337,550,712 | \$ - | \$ - |