

E75D
State Lottery Agency

Operating Budget Data

(\$ in Thousands)

| | <u>FY 05</u> <u>Actual</u> | <u>FY 06</u> <u>Working</u> | <u>FY 07</u> <u>Allowance</u> | <u>FY 06-07</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|--------------------|---|--|--|--|--|
| Special Fund | \$53,531 | \$53,185 | \$58,278 | \$5,093 | 9.6% |
| Total Funds | \$53,531 | \$53,185 | \$58,278 | \$5,093 | 9.6% |

- The fiscal 2007 allowance increases \$5.1 million over the 2006 working appropriation. Personnel expenses are set to increase nearly \$1 million, and other expenses grow mainly from a new vendor contract for the on-line gaming system.

Personnel Data

| | <u>FY 05</u> <u>Actual</u> | <u>FY 06</u> <u>Working</u> | <u>FY 07</u> <u>Allowance</u> | <u>FY 06-07</u> <u>Change</u> |
|------------------------|---|--|--|--|
| Regular Positions | 168.00 | 171.00 | 171.00 | 0.00 |
| Contractual FTEs | 8.50 | 8.50 | 8.50 | 0.00 |
| Total Personnel | 176.50 | 179.50 | 179.50 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|-----------------------------------|------|-------|
| Turnover, Excluding New Positions | 6.41 | 3.75% |
| Positions Vacant as of 12/31/05 | 8.00 | 4.68% |

Note: Numbers may not sum to total due to rounding.

For further information contact: Monica L. Kearns

Phone: (410) 946-5530

Analysis in Brief

Major Trends

Trends Include Prizes Increasing Their Share of Sales While the State Share Declines: Prizes increased their share of sales from fiscal 2003 to 2005. During the same time, the State's general fund share of sales dropped from 32% in fiscal 2003 to 30.7% in 2005. The State's share is expected to decline again in fiscal 2006 and 2007.

Issues

Fiscal 2005 Sales and Revenues Continue Long-running Increase; Growth Potential Seen in Monitor Games: The Lottery recorded sales of \$1.49 billion in fiscal 2005. All games except Lotto showed sales growth. Tracking with sales, general fund revenues from lottery games grew to \$456 million. The Lottery believes that monitor games like Keno are the most promising games in development. **DLS recommends that the Lottery comment on the justification for the sales and revenue projections for the new Race Trax monitor game and any other games to be introduced in fiscal 2007.**

Fiscal 2007 Revenues Are Expected to Grow, but Retailer Commission Increase Will Reduce Them by \$8 Million: In 2005 the General Assembly increased retail lottery agency commissions from 5 to 5.5% of gross sales. This increase is expected to reduce fiscal 2007 revenues by \$8 million compared to what they would have been. The agency says higher advertising spending is needed to compensate for the retailer increase. **DLS recommends that the Lottery provide information on why it believes increased retailer commissions would not lead to higher sales but advertising would. DLS also recommends reducing the advertising budget by \$2 million.**

New Contract Will Bring New Machines and Data Connections: The Lottery entered into a new contract with its gaming system vendor. A new on-line system will be activated in July 2006 and will enable improvements for players, retailers, and the agency. The contract also includes increased vendor fees. **DLS recommends that the Lottery comment on how the new on-line gaming system and vendor fees will affect sales and revenues.**

Report on Illegal Gaming Machines Estimates the State Loses \$15 Million Annually in Uncollected Taxes: A January 2006 report by the Abell Foundation indicates that Maryland loses an estimated \$15 million annually from underground slot machines in Baltimore City and Baltimore County. **DLS recommends that budget language be added that prohibits State Lottery agents from operating any other games.**

Recommended Actions

| | <u>Funds</u> |
|--|---------------------|
| 1. Add language requiring the General Assembly to approve games similar to slot machines or video lottery terminals. | |
| 2. Add language that prohibits lottery agents from operating other games. | |
| 3. Reduce advertising funds. | \$ 2,000,000 |
| Total Reductions | \$ 2,000,000 |

E75D – State Lottery Agency

E75D
State Lottery Agency

Operating Budget Analysis

Program Description

Since 1973, the Maryland State Lottery Agency has administered and operated lottery games to generate revenue for the State. The Lottery currently offers eight games: Pick 3, Pick 4, Keno, Keno Bonus, Mega Millions, Bonus Match Five, Instant Games, and Multi-Match, which replaced Lotto in February 2006.

All games, except Instant Games, are on-line which means that players pick their numbers or use computer generated numbers, receive a ticket, and then wait for a drawing to see if they have won. With Instant Games, players scratch off a latex covering on a ticket play area to reveal pre-printed combinations. Games are sold through lottery agents which are private businesses that receive fees in exchange for selling the games to the public.

Proceeds from the games pay for prizes, agent earnings, and all operating expenses of the agency. In fiscal 2005, 57.8% of sales paid for prizes, 6.5% paid for agent commissions and redemption fees, 3.6% paid for agency operations, and the remaining 30.7% was credited as revenue to the State.

The State Lottery Commission, consisting of five members appointed by the Governor, has oversight responsibility for the agency. The agency's six divisions include Administration, Finance, and Operations; Information Technology; Marketing; Sales; Public Affairs; and Executive. The Lottery also has a security unit.

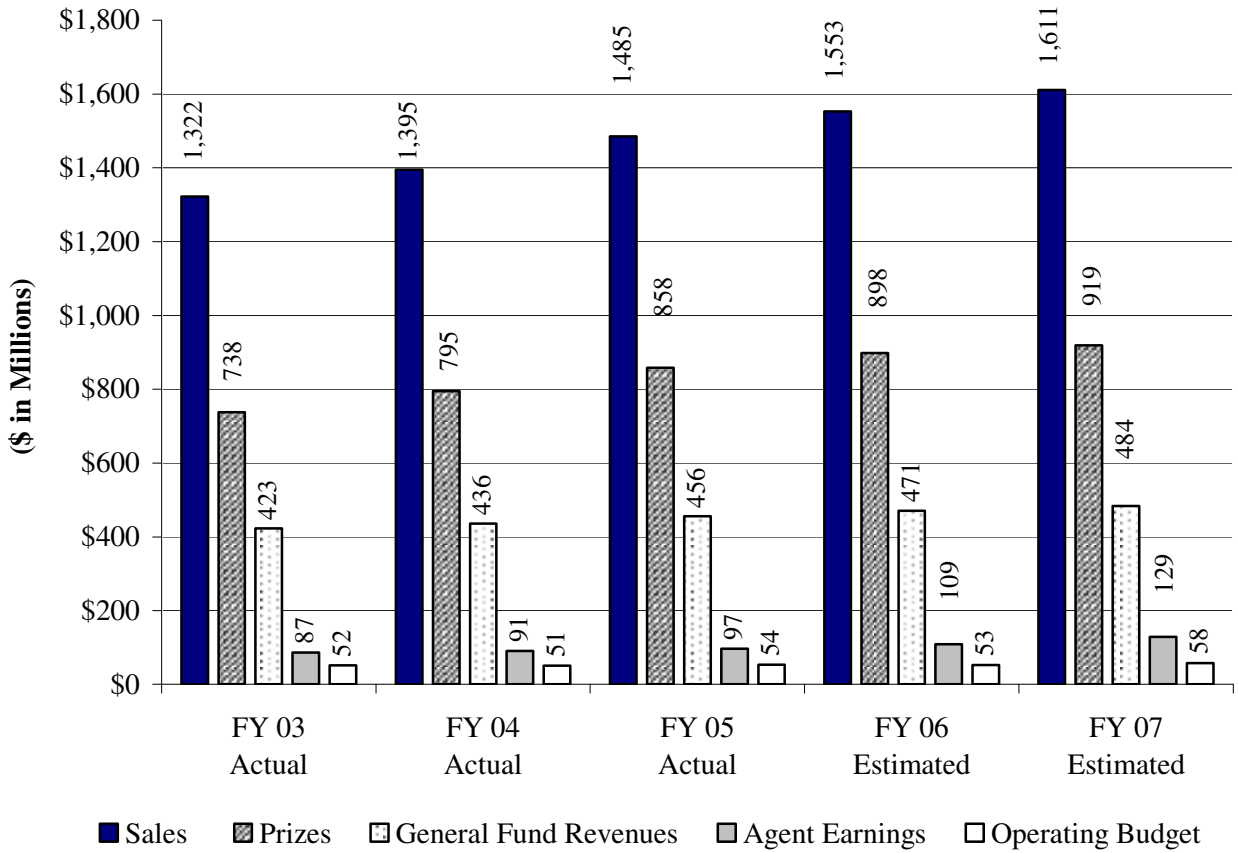
Performance Analysis: Managing for Results

Trends Include Prizes Increasing Their Share of Sales While the State Share Declines

The Lottery aims to be an innovative and responsible business that provides reliable revenues for the State. **Exhibit 1** shows total sales, which grew from \$1.3 billion in fiscal 2003 to \$1.5 billion in 2005. The exhibit also shows how much of the sales fund prizes, State revenues, agent earnings, and the agency's operating budget. **Exhibit 2** shows Lottery expenditures as a proportion of sales.

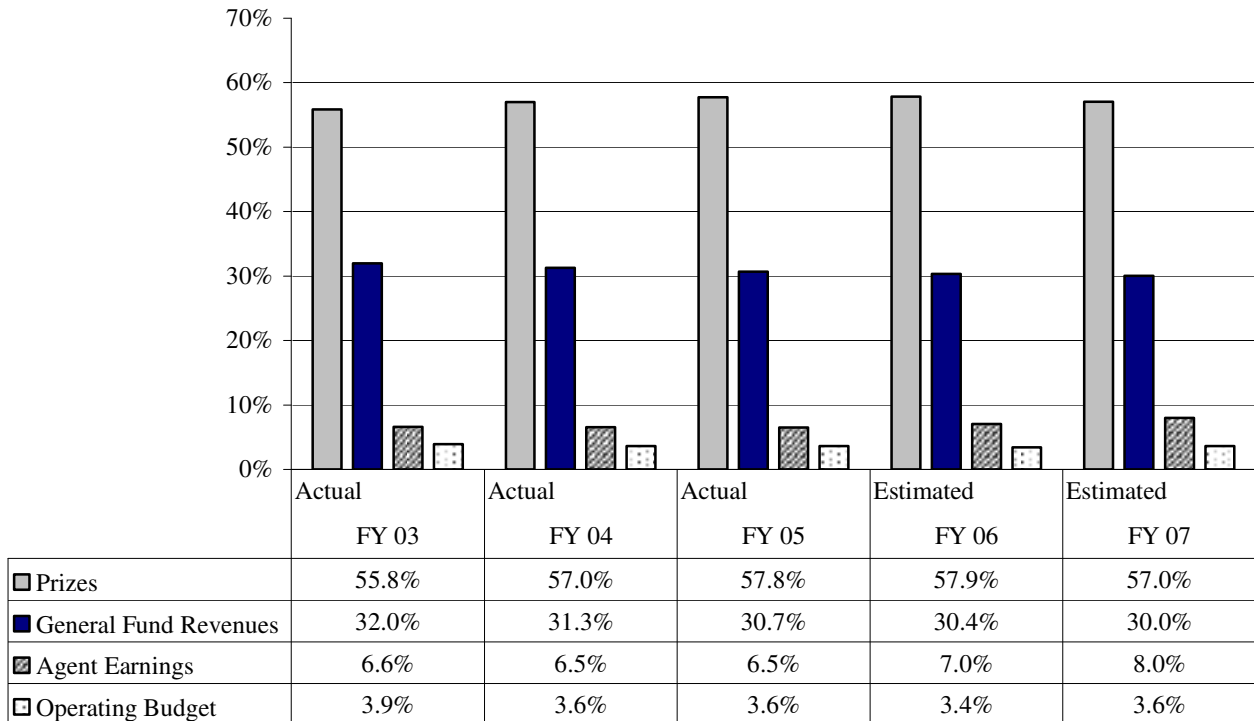
- ***Prizes Increase Share of Sales:*** Prize payouts increased from 55.8% of sales in fiscal 2003 to 57.8% in 2005. Prizes are expected to remain at about the fiscal 2005 level in 2006 and 2007. Prize payouts have been increasing because Keno and Instant games have increased their share of sales, and these games have higher payout ratios.

**Exhibit 1
Lottery Sales and Expenditures
Fiscal 2003 – 2007**



Source: Maryland State Budget Books fiscal 2006 and 2007

Exhibit 2
Lottery Expenditures as a Proportion of Sales
Fiscal 2003 – 2007



Note: Numbers may not sum to total sales due to rounding.

Source: Maryland State Budget Books fiscal 2006 and 2007

- **State Share of Sales Declines:** The State’s general fund share of sales decreased from 32% in fiscal 2003 to 30.7% in 2005. The State’s share is expected to decline again in fiscal 2006 and 2007. Increased prize payouts have put pressure on the State’s share of sales. Furthermore, beginning in fiscal 2007, agent commissions increase from 5 to 5.5% of sales, as authorized by the Budget Reconciliation and Financing Act of 2005 (BRFA) (Chapter 444, Acts of 2005).
- **Agent Earnings Have Been Stable but Will Increase in Fiscal 2007:** Lottery agents are compensated with a commission for selling and cashing lottery tickets. The Lottery also maintains an agent bonus and incentive program that is capped at one-half of 1% of gross sales. Agent earnings averaged 6.6% from fiscal 2003 to 2005, but the agents’ share is expected to increase to 7% in 2007 because of 2005 legislation enacted to increase their commission percentage.

- Operating Budget Expenses Are Stable and Meet Objective:** The Lottery has an objective to keep its operations efficient, with administrative costs totaling no more than 4% of sales. The agency has been meeting this objective and is expected to continue to meet it in fiscal 2006 and 2007. Administrative costs averaged 3.7% of sales annually from fiscal 2003 to 2005.

Governor's Proposed Budget

The fiscal 2007 allowance for Lottery operations is \$58.3 million, a \$5.1 million (9.6%) increase over the 2006 working appropriation. **Exhibit 3** shows the major changes.

Exhibit 3
Governor's Proposed Budget
State Lottery Agency
(\$ in Thousands)

| How Much It Grows: | <u>Special</u> <u>Fund</u> | <u>Total</u> |
|----------------------------|---------------------------------------|---------------------|
| 2006 Working Appropriation | \$53,185 | \$53,185 |
| 2007 Governor's Allowance | <u>58,278</u> | <u>58,278</u> |
| Amount Change | \$5,093 | \$5,093 |
| Percent Change | 9.6% | 9.6% |

Where It Goes:

Personnel Expenses

| | |
|---|-------|
| Employee and retiree health insurance | \$414 |
| Increments and other compensation | 190 |
| Health insurance shortfall funding..... | 102 |
| Employee retirement system..... | 101 |
| Turnover adjustments | 49 |
| Deferred compensation..... | 22 |
| Workers' compensation premium assessment..... | -47 |

Other Changes

| | |
|---|-------|
| New on-line gaming contract..... | 4,495 |
| Advertising | 2,000 |
| Instant ticket printing and other reproduction..... | 965 |
| Increased vendor fee; the fee is based on a percentage of sales | 615 |

E75D – State Lottery Agency

Where It Goes:

| | |
|--|----------------|
| Motor vehicle expenses | 93 |
| Telecommunications lines no longer needed with new on-line system..... | -3,435 |
| Equipment repair contractual services | -349 |
| Equipment lease payments..... | -43 |
| Other | -76 |
| Total | \$5,093 |

Note: Numbers may not sum to total due to rounding.

Personnel Expenses Increase Nearly \$1 Million

Regular personnel expenses account for \$837,055 of the Lottery increase. This represents a 7.9% rise over fiscal 2006 regular personnel expenses. Health insurance for current and retired employees is set to increase 20%, but a certain amount of the difference represents underfunding at this point in 2006 that will be addressed by the Department of Budget and Management.

Salaries are set to grow 2.3%, which is consistent with the statewide average of 2.4%. A review of the agency's Executive Pay Plan shows that an executive VI position was reclassified as executive VII, which resulted in compensation for the position increasing from \$90,008 to \$100,687. Health insurance shortfall funding (achieved from position abolitions) amounts to \$101,672. The agency's contribution to the employee retirement system increases 21%, which is consistent with the statewide average.

Nonpersonnel Expenses Increase \$4.2 Million, Mostly from New Vendor Contract

Nonpersonnel expenses account for \$4.2 million of the Lottery increase. This represents a 10% rise over the fiscal 2006 working appropriation level. The largest increase is from a new contract with the vendor that provides the Lottery's gaming system. The vendor fee on the existing system would be about \$11 million in fiscal 2007, compared to \$15.5 million for the new system. The new vendor contract is further discussed in Issue 3.

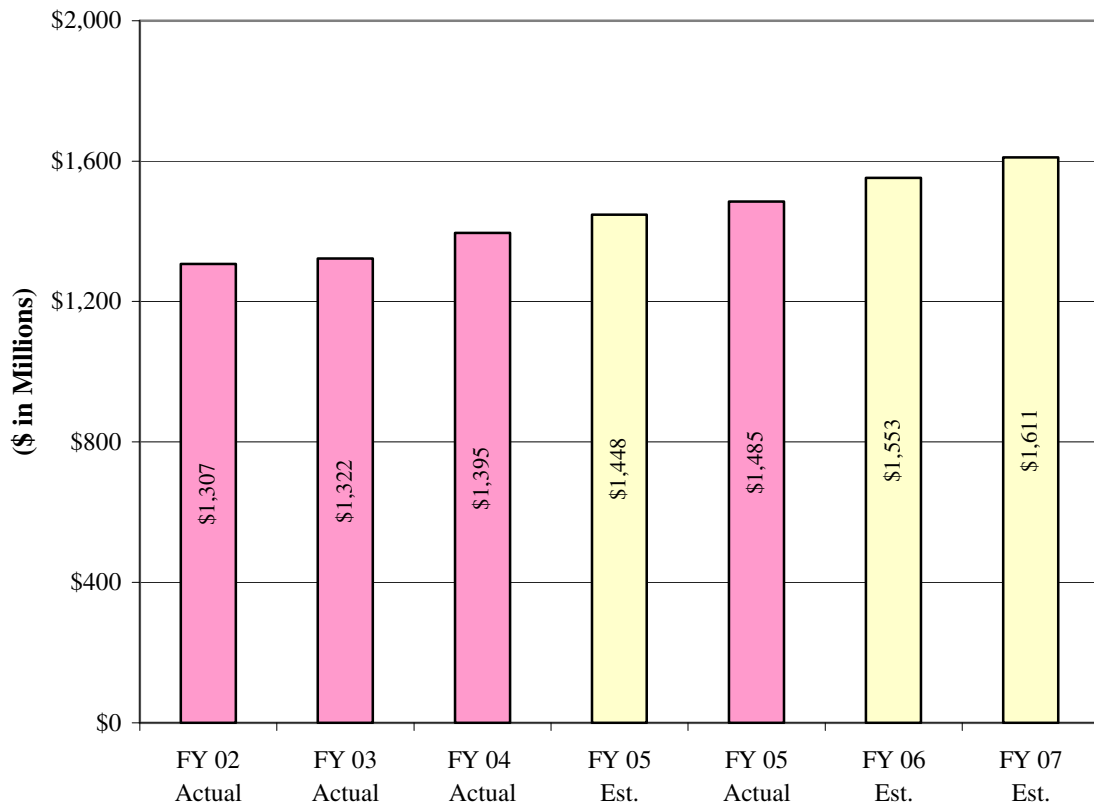
Other major increases include \$2 million for advertising, nearly \$1 million for printing Instant tickets and other reproduction expenses, and \$614,700 for increased vendor fees. Vendor fees are based on a percentage of sales, so as sales increase, the fee increases. Budget decreases include \$3.4 million for telecommunications lines. The new gaming system will be satellite based, so the Lottery will no longer need land-based telephone line connections between its office and retailers.

Issues

1. Fiscal 2005 Sales and Revenues Continue Long-running Increase; Growth Potential Seen in Monitor Games

The Lottery recorded sales of \$1.49 billion in fiscal 2005, exceeding its estimate of \$1.45 billion, as shown in **Exhibit 4**. This growth represents a \$90 million (6.4%) increase over fiscal 2004. All games grew except Lotto and Bonus Match 5; Instant games had the largest dollar increase, followed by Pick 4. The Lottery has increased its overall sales every year since at least fiscal 2001, and this trend is expected to continue in 2006 and 2007. Maryland ranks sixth among all states in lottery sales per capita, the Lottery reports. **Appendix 4** shows sales by county.

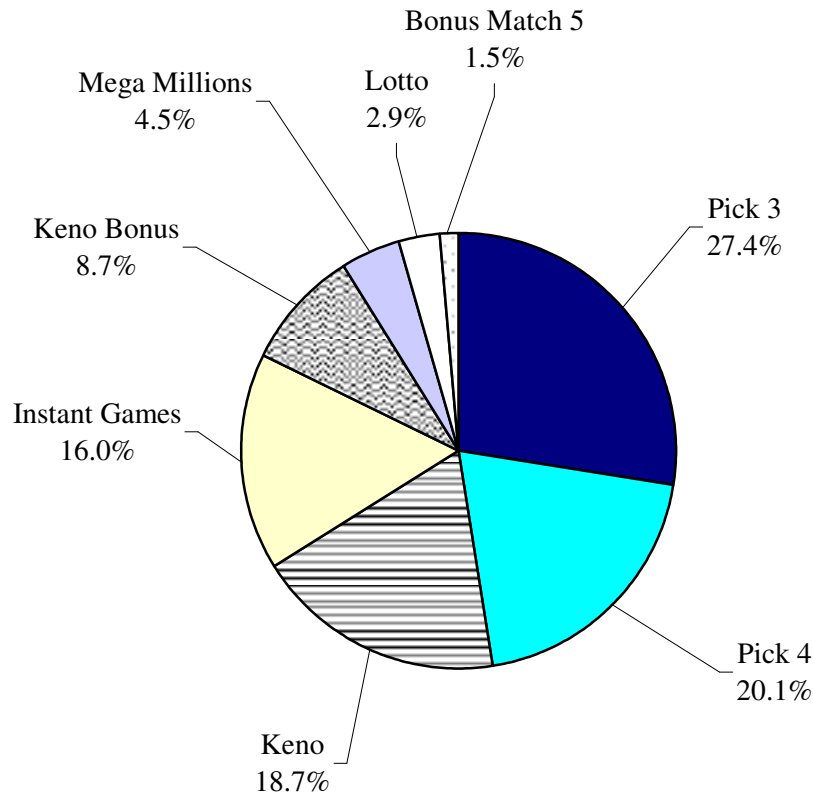
Exhibit 4
Lottery Sales Growth
Fiscal 2002 – 2007



Source: Maryland State Budget Books fiscal 2004 to 2007

Tracking with sales, general fund revenues from lottery games grew to \$456 million in fiscal 2005, a \$20 million (4.5%) increase over fiscal 2004. Keno and Keno Bonus, Mega Millions, Instant games, and Pick 4 showed revenue growth, while revenues in the other games declined. **Exhibit 5** shows the percentage of revenues contributed by each game.

Exhibit 5
Fiscal 2005 Revenue by Game
Total General Fund Revenues = \$456 Million



Note: Mega Millions does not include \$21.2 million that was transferred to the Maryland Stadium Authority. Revenues for Race Trax, a short-term promotional game, were \$29,551 and are not represented in the chart. They account for 0.01% of revenues.

Source: Maryland State Lottery

E75D – State Lottery Agency

Pick 3: Sales increased by \$5.3 million (1.8%) in fiscal 2005 due to two special promotions that gave players different ways to win. This increase represents a turnaround for the game, which has seen declining sales in recent years due to players preferring games with higher prizes. The top Pick 3 prize is \$500. Still, Pick 3 contributes the largest amount of revenues among the games, as shown in Exhibit 4.

Pick 4: Sales increased by \$16.2 million (7.7%) in fiscal 2005. Revenues increased by \$2.7 million (3%).

Keno and Keno Bonus: Sales increased by \$26.7 million (6.9%). Revenues increased by \$10 million (8.7%).

Instant Games: Sales grew \$35.2 million (10%). Revenues grew \$5.2 million (7.7%). Also known as scratch-offs, instant tickets are one of the fastest growing products in Maryland as well as the lottery industry generally, the agency reports. The Lottery launched 66 different instant ticket games in fiscal 2005, each having its own theme. A new \$10 ticket game was recently launched, and a \$20 ticket will launch in February 2006. The higher priced tickets have higher payout rates, and the Lottery expects these tickets to further improve sales and revenue growth.

Bonus Match 5: Sales decreased \$974,612 (4.3%), and revenues decreased \$326,952 (4.5%).

Lotto: Sales decreased by \$2.4 million (6.5%), and revenues declined by \$815,254. Jackpots for Lotto have not been able to compete with the jackpots offered by multi-state games. As a result, Maryland's Lotto was replaced with Multi-Match in February 2006. Multi-Match still offers a jackpot prize but provides chances to pick numbers on multiple lines, which the Lottery says is popular with players. For a \$2 purchase, players receive 18 numbers between 1 and 43. Players win by matching 3, 4, 5, or 6 numbers on any one line or 5 to 18 numbers on multiple lines.

Mega Millions (Multi-state Lottery Game): Sales increased by \$9.6 million (10.6%), and revenues increased by \$5.1 million (32.9%). Mega Millions revenues are greatly affected by the number of jackpots paid out during the year.

Race Trax: Race Trax was launched as a short-term promotional game to determine whether a second monitor game could be successful in Maryland and whether existing monitor games (Keno and Keno Bonus) would be cannibalized. Race Trax operated at 30 different retailers and exceeded its weekly sales goals of \$1,000 per retailer, bringing in an average of \$3,010 weekly per retailer. Keno sales slightly decreased during the promotion, but monitor sales overall increased.

Fiscal 2006 sales and revenues are on track to surpass 2005. As of January 1, 2006, year-to-date sales were \$770.5 million, as compared to \$731.7 million on January 2, 2005. Fiscal 2006 revenues were \$248.1 million on January 1, 2006, as compared to \$237.9 million on January 2, 2005.

Growth Potential Seen in Monitor Games

The Lottery believes that monitor games like Keno are the most promising games in development. Keno sales are growing, and Keno games represent about 26% of Maryland's lottery sales. The Lottery has tested a game called Race Trax, which displays a horse race on a monitor. The race would run every three to four minutes, like Keno games. Testing indicated the game would be successful, and the fiscal 2007 allowance includes \$26 million in sales and \$5 million in State revenues from the game. At the same time, the agency reduced Keno revenue projections by \$4 million to account for a likely substitution effect.

It is unclear how reliable the new game estimates are, since the Lottery has overestimated some new game sales and revenues in recent years. For example, the agency intended to participate in an international lottery beginning in fiscal 2003 that would bring in \$5.5 million in revenues that year, but participation did not occur. A game called Let It Ride was introduced in fiscal 2001 but produced only \$1.4 million in gross sales that year, and the Lottery pulled the game because of poor performance.

DLS recommends that the Lottery comment on the justification for the sales and revenue projections for the new Race Trax monitor game and any other games to be introduced in fiscal 2007.

2. Fiscal 2007 Revenues Are Expected to Grow, but Retailer Commission Increase Will Reduce Them by \$8 Million

Retail lottery agent commissions were increased from 5 to 5.5% of gross sales through legislation enacted in 2005. This increase is expected to reduce fiscal 2007 revenues by \$8 million but sales growth still should generate \$12.4 million more than in 2006, as shown in **Exhibit 6**. Future year losses are expected to increase by about 3% each year, according to the DLS fiscal note. In other words, revenues are assumed to grow by about 3% each year, and so the retailer commission share would grow by about 3% each year. In addition to sales commissions, Lottery agents receive a cashing commission equal to 3% of the value of winning lottery tickets cashed.

Agency Says Higher Advertising Spending Is Needed to Compensate for Retailer Increase

The increased retailer commission can be seen as an incentive for Lottery agents to better display and promote the games in their establishments. The Lottery, however, reports that it does not expect the commission increase to lead to additional sales. It contends that new games and promotions are needed to boost sales.

Exhibit 6
Actual and Projected Lottery Revenues
Fiscal 2003 – 2007
(\$ in Millions)

| | <u>FY 03</u> <u>Actual</u> | <u>FY 04</u> <u>Actual</u> | <u>FY 05</u> <u>Actual</u> | <u>FY 06</u> <u>BRE</u> | <u>FY 07</u> <u>BRE</u> |
|--------------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------|----------------------------|
| Sales | \$1,322.2 | \$1,395.4 | \$1,484.8 | \$1,552.5 | \$1,611.0 |
| Net Revenue | 444.9 | 458.3 | 477.1 | 491.8 | 504.7 |
| Less Stadium Authority | 22.0 | 22.0 | 21.2 | 20.5 | 21.0 |
| Less Transfers to Horse Racing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Revenue to General Fund | \$422.9 | \$436.3 | \$455.9 | \$471.3 | \$483.7 |
| Change from Prior Year | \$8.8 | \$13.4 | \$19.6 | \$15.4 | \$12.4 |

BRE = Board of Revenue Estimates

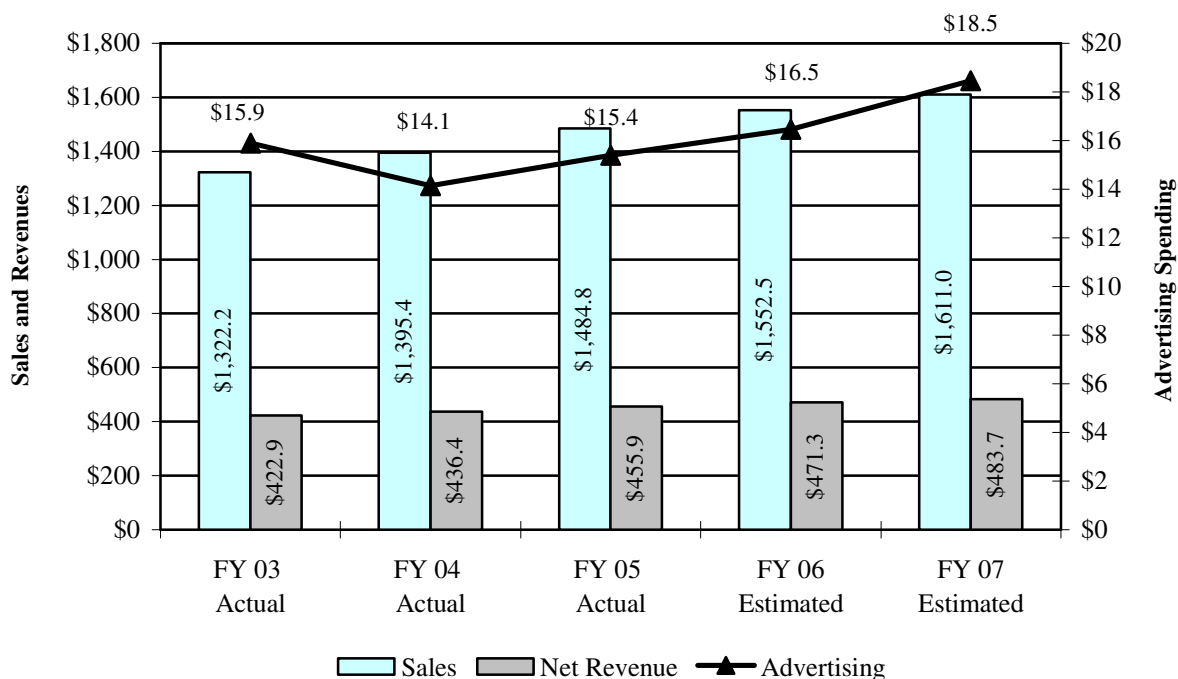
Source: Maryland State Budget Books fiscal 2006 and 2007

The fiscal 2007 allowance includes an advertising budget of \$18.5 million, which is a \$2 million (12%) increase over the 2006 working appropriation. **Exhibit 7** shows sales and revenues compared to advertising spending. The increases in sales and revenues from fiscal 2003 to 2004 and simultaneous decrease in advertising shows that lower advertising spending does not necessarily lead to lower sales. The same pattern was evident from fiscal 2001 to 2002. **DLS recommends that the Lottery provide information on why it believes increased retailer commissions would not lead to higher sales but advertising would. DLS also recommends reducing the advertising budget by \$2 million.**

3. New Contract Will Bring New Machines and Data Connections

In October 2005, the Lottery entered into a new five-year, eight-month contract with its gaming system vendor, Scientific Games, Inc. Contract expenses are estimated at \$15.5 million in fiscal 2007, which is \$4.5 million higher than they would have been with the existing system. Installation will begin in May, and system conversion is scheduled for July 6, 2006.

Exhibit 7
Sales and Revenue Trends Compared to Advertising Spending
Fiscal 2003 – 2007
(\$ in Millions)



Source: Maryland State Budget Books fiscal 2006 and 2007; Lottery budget requests fiscal 2005, 2006, and 2007

Under the contract, the Lottery will receive a new on-line gaming system designed to be easily upgraded. Existing terminals will be replaced with touch screen terminals and thermal printers will be installed that enable lottery advertising on the tickets. The system will be based on a satellite connection, rather than phone lines, between retailers and the Lottery. This should result in faster compilation of data and fewer errors. Furthermore, the new system eliminates the need for a separate \$4.5 million land-based communications system with Verizon. (The fiscal 2007 budget shows a savings of only \$3.4 million because the Lottery will retain the land-based system until it is confident the satellite system is fully functional.) The new contract also includes improved methods of scratch-off ticket delivery.

The new contract increases the fees received by the vendor. The Lottery reports that Maryland currently pays \$0.0071 per dollar sold to the vendor. In the new contract, the State will pay \$0.010 per dollar sold. Still, the Lottery reports that most states pay \$0.02 to \$0.03 of every dollar sold to their vendors. **DLS recommends that the Lottery comment on how the new on-line gaming system and vendor fees will affect sales and revenues and how reliable the satellite system will be in inclement weather conditions.**

4. Report on Illegal Gaming Machines Estimates the State Loses \$15 Million Annually in Uncollected Taxes

A January 2006 report by the Abell Foundation indicates that Maryland loses an estimated \$15 million annually from underground slot machines in Baltimore City and Baltimore County. The report states that about 3,500 video gaming devices are distributed in these jurisdictions among hundreds of bars, convenience shops, gas stations, and liquor stores. The machines do not pay out winnings and are intended for amusement only, but in some cases players apparently are awarded winnings from bartenders and clerks.

DLS recommends that budget language be added that prohibits State lottery agents from operating any other games. By prohibiting lottery agents from operating other games, the State can prevent competition with its lottery games, and it could help curtail any illegal video gaming activity.

Recommended Actions

1. Add the following language:

Provided that no funds may be expended or committed to develop or implement any new lottery game using class II or class III gaming machines, or any other gaming device which plays or functions in a manner similar to a slot machine or a video lottery terminal, unless that new game or machine is specially authorized by an act of the General Assembly.

Explanation: This language requires the General Assembly to authorize the development or implementation of any new lottery game using class II or class III gaming machines or any device which simulates a slot machine or video lottery terminal.

2. Add the following language:

Further provided that the State Lottery shall prohibit lottery agents from operating any gaming devices besides State-approved lottery devices.

Explanation: By prohibiting lottery agents from operating other games, the State can prevent competition with its lottery games, and it could help curtail any illegal video gaming activity.

| | <u>Amount Reduction</u> |
|---|------------------------------------|
| 3. Reduce advertising funds. This reduction provides funding equal to the current level of spending in fiscal 2006. | \$ 2,000,000 SF |
| Total Special Fund Reductions | \$ 2,000,000 |

Current and Prior Year Budgets

Current and Prior Year Budgets State Lottery Agency (\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|-------------------------|-------------------------|-------------------------|------------------------|-----------------|
| Fiscal 2005 | | | | | |
| Legislative Appropriation | \$0 | \$51,817 | \$0 | \$0 | \$51,817 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 0 | 1,877 | 0 | 0 | 1,877 |
| Reversions and Cancellations | 0 | -163 | 0 | 0 | -163 |
| Actual Expenditures | \$0 | \$53,531 | \$0 | \$0 | \$53,531 |
| Fiscal 2006 | | | | | |
| Legislative Appropriation | \$0 | \$53,185 | \$0 | \$0 | \$53,185 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Working Appropriation | \$0 | \$53,185 | \$0 | \$0 | \$53,185 |

Note: Numbers may not sum to total due to rounding.

Fiscal 2005

The \$1.9 million budget amendment in fiscal 2005 was for on-line system vendor fees and instant ticket printing. These items are related to sales, so as sales volume increases, they increase. Any unused funds are reverted rather than used for other expenditures.

Audit Findings

In its December 2002 audit report on the Lottery Agency, the Office of Legislative Audits (OLA) reported that the agency's accountability and compliance level was unsatisfactory. Based on the results of the audit released in October 2005, OLA concluded that the agency improved its fiscal and compliance operations and the accountability and compliance level is no longer unsatisfactory.

| | |
|------------------------------|-------------------------------------|
| Audit Period for Last Audit: | February 1, 2002 – February 2, 2005 |
| Issue Date: | October 2005 |
| Number of Findings: | 6 |
| Number of Repeat Findings: | 3 |
| % of Repeat Findings: | 50% |
| Rating: (if applicable) | n/a |

Finding 1: The agency did not adequately monitor a company contracted to service instant ticket vending machines.

Finding 2: Security deposits were not requested and obtained from ticket agents whose electronic fund transfers were repeatedly dishonored by the bank.

Finding 3: **Cash receipts from lottery subscription purchases were not adequately controlled.**

Finding 4: Computer networks utilized by the agency were not sufficiently controlled.

Finding 5: **Controls over firewall logs and dial-up connections were not comprehensive.**

Finding 6: **Controls over privileged users, program changes, passwords, and user accounts were deficient.**

* Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
State Lottery Agency**

| <u>Object/Fund</u> | <u>FY05 Actual</u> | <u>FY06 Working Appropriation</u> | <u>FY07 Allowance</u> | <u>FY06 - FY07 Amount Change</u> | <u>Percent Change</u> |
|--------------------------|------------------------|---|---------------------------|--------------------------------------|---------------------------|
| Positions | | | | | |
| 01 Regular | 168.00 | 171.00 | 171.00 | 0 | 0% |
| 02 Contractual | 8.50 | 8.50 | 8.50 | 0 | 0% |
| Total Positions | 176.50 | 179.50 | 179.50 | 0 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 10,179,151 | \$ 10,633,192 | \$ 11,470,247 | \$ 837,055 | 7.9% |
| 02 Technical & Spec Fees | 242,082 | 292,269 | 336,769 | 44,500 | 15.2% |
| 03 Communication | 489,997 | 363,334 | 371,009 | 7,675 | 2.1% |
| 04 Travel | 56,582 | 57,700 | 57,700 | 0 | 0% |
| 06 Fuel & Utilities | 119,732 | 89,100 | 99,792 | 10,692 | 12.0% |
| 07 Motor Vehicles | 222,582 | 268,269 | 361,206 | 92,937 | 34.6% |
| 08 Contractual Services | 39,448,752 | 39,710,711 | 43,853,242 | 4,142,531 | 10.4% |
| 09 Supplies & Materials | 139,317 | 175,500 | 176,500 | 1,000 | 0.6% |
| 10 Equip - Replacement | 127,687 | 81,336 | 59,525 | -21,811 | -26.8% |
| 11 Equip - Additional | 1,544,145 | 530,469 | 509,139 | -21,330 | -4.0% |
| 13 Fixed Charges | 961,217 | 982,653 | 982,808 | 155 | 0% |
| Total Objects | \$ 53,531,244 | \$ 53,184,533 | \$ 58,277,937 | \$ 5,093,404 | 9.6% |
| Funds | | | | | |
| 03 Special Fund | \$ 53,531,244 | \$ 53,184,533 | \$ 58,277,937 | \$ 5,093,404 | 9.6% |
| Total Funds | \$ 53,531,244 | \$ 53,184,533 | \$ 58,277,937 | \$ 5,093,404 | 9.6% |

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

**Lottery Sales by County
Fiscal 2005**

| <u>County</u> | <u>Total Sales</u> | <u>% of Sales</u> | <u>Per Capita Sales</u> |
|-----------------|------------------------|-------------------|-------------------------|
| Allegany | \$10,785,253 | 0.7% | \$146 |
| Anne Arundel | 148,476,627 | 10.1% | 292 |
| Baltimore | 226,844,237 | 15.4% | 291 |
| Calvert | 23,147,526 | 1.6% | 268 |
| Caroline | 7,302,945 | 0.5% | 235 |
| Carroll | 28,874,202 | 2.0% | 174 |
| Cecil | 15,955,233 | 1.1% | 167 |
| Charles | 46,781,907 | 3.2% | 344 |
| Dorchester | 8,080,115 | 0.6% | 261 |
| Frederick | 31,961,950 | 2.2% | 147 |
| Garrett | 2,932,693 | 0.2% | 97 |
| Harford | 47,982,082 | 3.3% | 204 |
| Howard | 32,238,503 | 2.2% | 121 |
| Kent | 4,072,946 | 0.3% | 208 |
| Montgomery | 138,089,176 | 9.3% | 150 |
| Prince George's | 299,159,983 | 20.2% | 355 |
| Queen Anne's | 8,734,506 | 0.6% | 194 |
| St. Mary's | 31,289,783 | 2.1% | 330 |
| Somerset | 5,733,498 | 0.4% | 222 |
| Talbot | 7,329,499 | 0.5% | 209 |
| Washington | 24,503,573 | 1.7% | 176 |
| Wicomico | 18,021,538 | 1.2% | 203 |
| Worcester | 24,251,577 | 1.6% | 495 |
| Baltimore City | 285,535,678 | 19.3% | 449 |
| Total | \$1,478,085,030 | 100.0% | \$266 |