Minnesota State Lottery

Selected Scope Financial Audit
For the Two Years Ended June 30, 1994

January 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-52

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. George R. Andersen, Director
Minnesota State Lottery

We have audited selected components of the Minnesota State Lottery (Lottery) operations for the two years ended June 30, 1994, as further explained in Chapter 1. Our audit scope included prize expense and reserve accounts, contracts, and administrative expense and transfers to state agencies. Therefore, we emphasize that this has not been a complete audit of all programs of the Lottery. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Lottery complied with provisions of laws, regulations, contracts, and grants that are significant to the audit.

Subsequent to the end of our field work, the director requested the Department of Employee Relations (DOER) to conduct an investigation into alleged misconduct regarding employee time reporting practices. DOER contracted with a consultant to conduct the review. The consultant has submitted a report dated December 11, 1995, to the director. Lottery time reporting practices are not addressed in this report.

This report is intended for the information of the Legislative Audit Commission and the management of the Lottery. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 26, 1996.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 30, 1995

Report Signed On: January 17, 1996

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

Minnesota State Lottery

Selected Scope Financial Audit
For the Two Years Ended June 30, 1994

Public Release Date: January 26, 1996 No. 95-52

Agency Background

The Minnesota State Lottery (Lottery) headquarters is in Roseville. Six regional offices are located throughout the state. George Andersen is the Executive Director of the Lottery. The Lottery Board, a citizen advisory council, advised the Lottery on various aspects of operations. The Lottery Board was abolished effective July 1, 1995, and all of its duties were eliminated as of that date.

The Lottery maintains accounts outside of the state treasury and records financial transactions on its own accounting system. Minn. Laws 1995, Chapter 254, Article 1, Section 861, Subd. 7 now requires the Lottery to transfer all available cash to the state treasury on a weekly basis. Lottery payroll and employee expense reimbursements are recorded on the Statewide Accounting System (SWA). The Lottery had gross revenues of approximately $330 million and $333 million during fiscal years 1993 and 1994.

Selected Audit Areas and Conclusions

The Lottery administered prize payouts and unclaimed prizes as required by statute. We also reviewed the status of prize incentive reserve accounts. The Lottery has reduced the amount of the reserve accounts in recent years. We concluded, however, that the Lottery should reevaluate its need for retailer incentive reserves by considering both its working capital and cash flow projections for the organization overall.

We reviewed the status of the on-line vendor contract with Automatic Wagering, Inc. The original contract was extended without a public bid process. We believe the Lottery should re-bid this contract in the future.

The Lottery complied with state statutes in transferring beneficiary distributions and the payment of taxes in lieu of sales tax to state agencies.

Minnesota State Lottery

Table of Contents

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Ken Vandermeer, CPA	Audit Director
Janet Knox, CPA	Auditor
Margie Caneff	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Lottery on January 8, 1996:

George Andersen	Director
Mary Ellen Hennen	Director for Administration
Dale McDonnell	Legal Counsel
Bob Okerlund	Manager, Fiscal Services

Chapter 1. Introduction

The Minnesota State Lottery (Lottery) was created in June 1989. Minn. Stat. Section 349A governs the Lottery and its operations. The director of the Lottery is George R. Andersen, who is appointed by the governor. The Lottery Board, a citizen advisory council, advised the Lottery on various aspects of operations until July 1, 1995, when the board was abolished.

The mission of the Lottery is to provide secure gaming opportunities, while offering fun and entertainment to the public within the guidelines of the Lottery statute. Additionally, the Lottery's objective is to maximize the contributions to those projects and programs identified by the Legislature as beneficiaries. Beneficiaries of Lottery proceeds include the state's General Fund and the Environment and Natural Resources Trust Fund which respectively receive 60 percent and 40 percent of the Lottery's net proceeds.

The Lottery currently sells instant scratch tickets and operates four on-line number games: Daily-3, Gopher-5, DATO!, and Powerball. During fiscal year 1994, a typical Lottery sales dollar was distributed as follows: 57.8 percent for prizes; 17.8 percent to Lottery beneficiaries; 12.0 percent to the Lottery's operating fund; 6.5 percent to payments in lieu of sales tax; and 5.9 percent for retailer commissions. Table 1-1 highlights the Lottery's financial activities for each of the two fiscal years ended June 30, 1993 and 1994.

Table 1-1
Minnesota State Lottery Financial Summary
Fiscal Years 1993-1994

	1993	1994
Income:		
Ticket Sales	$328,835,922	$331,475,147
Other Income	1,069,272	1,202,443
Total Revenue	$329,905,194	$332,677,590
Expenses and Distributions:		
Prize Expense and Reserves	$196,873,180	192,253,585
Beneficiary Distributions	57,144,789	59,369,249
Tax in Lieu of Sales Tax	21,374,335	21,545,886
Retailer Commissions/Incentives	18,160,627	19,673,485
Advertising	7,800,355	8,410,787
Promotions	2,540,684	2,682,911
Other Expenses	26,011,224	28,741,687
Total Expenses/Distributions	$329,905,194	$332,677,590

Source: Minnesota State Lottery audited financial statements and supporting accounting records.

Chapter 2. Prize Expense and Reserve Accounts

Chapter Conclusions

The Lottery met minimum prize payout percentages and returned unclaimed prize dollars to subsequent games as required by statute. The Lottery's reserve account balances have declined in recent years. The Lottery should, however, reevaluate its need for retailer incentive reserves by considering both its working capital and cash flow projections for the organization overall.

Prize Expense

The Lottery recognizes prize expense from ticket sales according to the established prize payout structure for each game. The Lottery establishes an individual prize structure for each instant game. The number and amount of prizes vary by game. This allows the Lottery flexibility in having different types of games available for sale at any given time. Minn. Stat. Section 349A.10, Subd. 2 (b) (2) (ii) provides that, for fiscal year 1993 and 1994, prizes for instant games had to be at least 60 percent of gross receipts.

On-line games have a statutory required minimum payout of 45 percent of gross receipts. The prize levels for the Daily-3 game remain constant, based on the type and amount of wager. The Gopher-5 and Powerball on-line games have minimum jackpot amounts of $100,000 and $2,000,000 respectively. The jackpots continue to grow, based on sales volume, until someone purchases a winning ticket. The low tier (non jackpot) prizes for these games include both pre-established and pari-mutual determined amounts.

Players have up to one year following the date of the drawing or close of an instant game to claim a prize. Thereafter, players forfeit all rights to prizes, and the prizes become unclaimed. Prior to the 1995 legislative session, Minn. Stat. Section 349A.08, Subd. 5 required the Lottery to return all unclaimed prize money to the prize pool of subsequent games. This increased the prize payout percentage for the instant games. For on-line games, the Lottery has used the unclaimed prizes to develop additional opportunities to win, like the Daily-3 bonus spin. The Lottery director determines the amount of unclaimed prize money allocated to current games when developing the prize structures. Table 2-1 shows unclaimed prize financial activity of the Lottery from inception to June 30, 1994.

Table 2-1
Unclaimed Prizes
From Inception to June 30, 1994

	Instant Games	On-line Games	Total
Unclaimed prizes	$11,007,394	$4,374,415	$15,381,808
Amounts returned to subsequent games	9,050,520	2,192,418	11,242,938
Balance to be added to future games	$1,956,874	$2,181,997	$4,138,870

Source: Minnesota State Lottery accounting records and supporting documentation.

The 1995 Legislature enacted a law change affecting unclaimed prize money. Minnesota Laws 1995, Chapter 254A.1, Section 84 requires the Lottery to transfer to the state 70 percent of all unclaimed prize money at the end of each fiscal year. The remaining 30 percent is added to the prize pools of subsequent games. The unclaimed prize money transferred to the state is allocated 60 percent to the General Fund and 40 percent to the Environment and Natural Resources Trust Fund. The change applied to all unclaimed prize money not committed to a prize pool on June 2, 1995. As a result, the Lottery allocated $1,355,277 in unclaimed prize money to the two funds for the fiscal year ended June 30, 1995.

Retailer Incentive and On-Line Reserve Accounts

Effective fiscal year 1996, Minn. Statutes require the Lottery to transfer available cash to the state treasury on a weekly basis. Net proceeds are then transferred to the beneficiaries within 30 days after month end. Net proceeds are the balance in the Lottery fund after transfers to the Lottery prize fund and credits to the Lottery operations account. The Lottery has withheld from distribution amounts used to fund two types of reserve accounts, retailer incentive and on-line reserve accounts. The Lottery classifies the reserve accounts as liabilities and charges them to expense as tickets are sold. As a result, the Lottery retains these proceeds for future payouts.

The retailer incentive reserve account offers rewards to retailers who generate additional sales revenue. The reward programs are planned and timed to increase sales during slower sales periods. Each program has a detailed set of procedures and criteria for winning awards and compensation. Cash and merchandise are awarded as incentive prizes and are funded from the reserve account. The Lottery withholds approximately one percent of the prize structure on most games as an incentive reserve. The Lottery has limited the amount in this reserve account to $2,000,000 through an internal policy. As of June 30, 1993, the balance in the instant retailer incentive reserve account was $856,609. At June 30, 1994, it was $1,270,770.

The Lottery also maintains a reserve for the Daily-3 and Gopher-5 on-line games. A percentage of sales (1 to 3 percent) is placed in reserve. The Lottery uses the reserve account for future prizes in the event that a game does not produce sufficient sales to cover all prize expenses. The Lottery has limited the on-line reserve account to approximately $1,000,000 through an internal policy. As of June 30, 1993 and 1994, the on-line reserve balance was $1,020,734 and $1,050,816 respectively.

Table 2-2 shows a history of the Retailer Incentive and On-Line Reserve Account Balances from fiscal year 1991 through fiscal year 1994.

Table 2-2
Retailer Incentive and On-Line Reserve Account Balances

	June 30, 1991	June 30, 1992	June 30, 1993	June 30, 1994
Account:				
Retailer Incentive Reserve Account	$1,190,106	$1,792,883	$856,609	$1,270,770
On-Line Reserve Account	707,237	1,219,404	1,020,734	1,050,816
Total Reserve Account Balance	$1,897,343	$3,012,287	$1,877,343	$2,321,586

Source: Minnesota State Lottery annual financial statements and supporting accounting records.

We focused our review of prize expense and reserves on the following objectives:

- Did the Lottery comply with statutory requirements for prize payout percentages?
- Were unclaimed prizes added back to subsequent games as required by Minn. Stat. Section 349A.08, Subd. 5?
- Was the balance in the Lottery retailer incentive reserve account reasonable?

We selected our audit objectives based on material legal compliance issues under the Lottery's control. In addition, we evaluated the reasonableness of the reserve accounts based on prior audit concerns pertaining to the authority of the Lottery to maintain reserve accounts.

Our review of prize expense found that the Lottery is in compliance with Minn. Stat. Section 349A.10, Subd. 2(b) and Section 349.08, Subd. 5. The Lottery met minimum prize payout percentages and returned unclaimed prize money to subsequent games. Also, the retailer incentive reserve balances are lower than noted in prior audit reports. As discussed in finding number 1, however, we concluded that the Lottery should reevaluate its need for retailer incentive reserves by considering both its working capital and cash flow projections for the organization overall.

1. The Lottery has not considered its overall working capital and cash flow projections in determining the amount of retailer incentive reserves necessary to meet retailer incentive payments.

The Lottery has not considered available working capital and anticipated cash inflows and outflows for the organization overall in determining whether it needs to maintain retailer incentive reserves to make retailer incentive payments. Presently, retailer incentive amounts are accumulated in a separate account without regard to working capital reserves maintained for other purposes. Table 2-2 shows the year end balances in the retailer incentive reserve for fiscal year 1991 to 1994.

Minnesota State Lottery

As an alternative, retailer incentive payments could be made from available working capital, including investments and current month(s) receipts. This would minimize the need to accumulate separate retailer incentive reserves. This would enable the Lottery to make more timely transfers to the beneficiaries.

Recommendation

- *The Lottery should reevaluate its need for retailer incentive reserves by considering both its working capital and cash flow projections for the organization overall.*

Chapter 3. Contracts

Chapter Conclusion

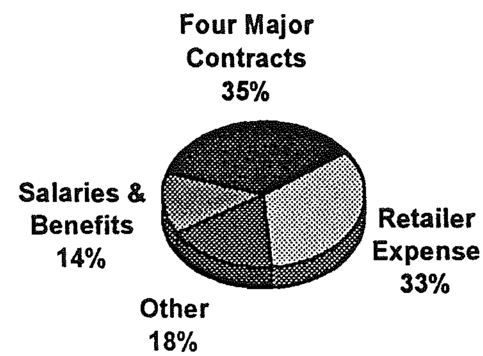
The Lottery negotiated an extension of its contract with Automatic Wagering, Inc. for on-line game services. We believe, however, that in the future the Lottery should re-bid this contract to ensure that it complies with the intent of the laws governing its contracting authority and also to ensure that it receives the best possible price for the services received.

Minn. Stat. Section 349A.06 and .07 authorize the director of the Lottery to enter into lottery procurement contracts lottery retailer contracts. Lottery procurement contracts are for products or services that are unique to the lottery, such as premium items or service contracts. The statute exempts the Lottery from Minn. Stat. Chapter 16B governing state contracts for lottery procurement contracts, but requires the director to use an open and competitive bidding process in awarding vendor contracts. The statute also requires the director to follow, as nearly as practicable, the procedures of Minn. Stat. Chapter 16B, consistent with the provisions of the Lottery law. Similar to other state agencies, however, the Lottery is required to follow state contract guidelines governed by Minn. Stat. Chapter 16B for non-lottery type contracts such as equipment, materials, supplies, or services.

The Lottery has developed written policies and procedures for both lottery and non-lottery contracts. Procedures for administering lottery contracts include developing a request for proposal and distributing it to interested vendors, selecting a review committee composed of Lottery staff, and receiving and evaluating bids. The review committee makes recommendations to the Lottery director, who has the authority to approve or disapprove the committee's recommendation. Lottery staff process lottery-type procurement contracts based on the authority designated in Minn. Stat. Section 349A.07. The Department of Administration processes non-lottery type contracts.

The Lottery has entered into numerous contracts since its inception in 1989. Payments related to four major lottery contracts represent 35% of the Lottery's fiscal year 1994 expenditures. These contract payments remain fairly stable between years. Figure 3-1 shows the allocation of fiscal year 1994 expenditures, excluding prize expense and payments in lieu of sales tax.

Figure 3-1
Allocation of Minnesota Lottery
Fiscal Year 1994 Expenditures

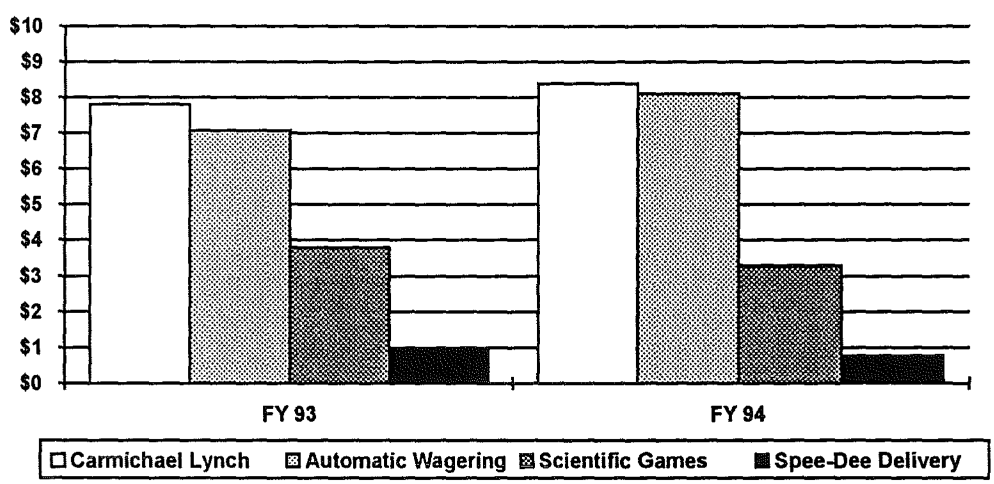


Note: Expenditures exclude prize expense and payments in lieu of sales tax.

Source: 1994 annual financial statements and Minnesota Lottery general ledger transaction detail.

The four major lottery procurement contract vendors are: Carmichael Lynch Advertising, provider of advertising and promotional services; Automatic Wagering, Inc. (AWI), provider of on-line game services; Scientific Games, Inc., provider of instant game tickets; and Spee-Dee Delivery, provider of courier services. Figure 3-2 shows the dollar value of payments to the four major contract vendors during fiscal years 1993 and 1994.

Figure 3-2
Payments to the Lottery's Major Contract Vendors
(In Millions)



Source: 1993 and 1994 Annual Financial Statements and MN Lottery General Ledger transaction detail.

The objective of our audit was to review the status of the Lottery's contract with Automatic Wagering, Inc. (AWI) for on-line game services. We established the audit objective based on the significant value of the contract commitment to AWI. Additionally, we considered the special authority the Lottery has to enter into lottery-type contracts without being subjected to state contracting guidelines.

The methodology we used in auditing the contract with AWI included gaining an understanding of the policies and procedures used by the Lottery in entering into lottery procurement contracts. We also reviewed the Lottery's documentation and Lottery Board minutes pertaining to the contract extension. We performed a detailed analysis comparing the terms of the original AWI contract to the amended contract.

We found that the Lottery negotiated a contract extension with AWI without using a public bid process. As discussed in the following finding, we believe that the Lottery should re-bid this contract in the future.

2. The Lottery extended its contract for on-line game services without re-bidding the contract.

In January 1994, the director of the Lottery authorized an amendment to the contract between the Lottery and AWI. AWI provides the computer system services and equipment for the Lottery's four on-line games: Powerball, Gopher-5, Daily-3, and DATO!. The original contract term was for five years, commencing August 15, 1990. The amendment to the original contract extends the term of the contract to August 1997, with the option of three one-year extensions based on satisfactory performance of the contract requirements by the vendor. Contract negotiations involved the Lottery's legal counsel and the director of operations. The director also sent a letter to key members of the Legislature and to the Governor. The letter summarized the terms of the proposed agreement and solicited advisory input. In addition, the director of the Lottery discussed the contract extension with the Lottery Board throughout contract negotiations. The Board approved the extension on January 21, 1994.

The Lottery also requested an opinion from the Attorney General's Office regarding the legality of the extension. Minn. Stat. Section 349A.07 requires the Lottery to use an open and competitive bidding process when entering into lottery procurement contracts. The Lottery is also required to comply with state contracting statutes to the extent possible. In contrast to other state agencies whose contracts with vendors may not exceed five years, including extensions (Minn. Stat. Section 16B.07, Subd. 2), the Lottery statutes do not limit the length of a contract.

The fundamental legal question involved whether or not the amendment was truly an extension of the original contract or a new contract because of significant changes to the original contract terms. The Attorney General concluded that there were good arguments to support either conclusion. The Attorney General's opinion indicated that there was a rational legal basis for extending the existing contract without using a public bid process. It also stated, however, that there was a reasonable legal argument to the contrary. Ultimately, the Attorney General concluded that the contract extension with AWI was a policy decision.

Minnesota State Lottery

The contract amendment commits AWI to updating the computer hardware and software used for on-line games. The agreement includes replacing existing retailer sales terminals, providing new IBM mainframes to support a new terminal network, and providing a new lottery-specific computer software package. These changes take advantage of new computer technology and software developments that increase and enhance existing technology. The Lottery also identified a number of other benefits to extending the contract with AWI. One of these was the commitment of AWI to increase its engineering staff, creating 8 to 12 new professional jobs in Minnesota. Also, AWI designated the Lottery as a test site for emerging on-line gaming technology. The amendment did not increase the cost of the services provided.

Considering the vendor's proposal, the Lottery concluded that extending the contract with AWI benefited both the Lottery and the State of Minnesota. The Lottery believed that re-bidding the contract would have increased the risk that the market would dictate the cost and services provided, resulting in an outcome that would not have been favorable.

The contract for on-line game systems and services has not been re-bid since the original bid evaluation. Furthermore, the term of the amended contract is not set to expire until the year 2000. Because of the uncertainty about the legal questions about the extension, we believe that in the future the Lottery should re-bid the on-line vendor contract.

Recommendation

- *The Lottery should re-bid the contract for on-line game services in the future.*

Chapter 4. Administrative Expense and Transfers to State Agencies

Chapter Conclusions

The Lottery transferred net proceeds after expenses to beneficiaries according to statute. The Lottery also properly calculated and transferred payments in lieu of sales tax.

Minn. Stat. Section 349A.10, Subd. 3 (b) limits the Lottery's operating costs to 15 percent of gross revenue. Operating costs include all expenses of the Lottery except for prize expense, tax in lieu of sales tax, and retailer commissions and incentives. Gross revenue includes ticket sales and all other income less tax in lieu of sales tax. Operating costs comprised 11.78 percent of fiscal year 1993 gross revenues and 12.8 percent of fiscal year 1994 gross revenues.

In addition to an overall limitation on operating expenses, the statutes limit the amount spent annually on advertising. Minn. Stat. Section 349A.10, Subd. 3 (c) limits the amount the Lottery spends on contracts for the preparation, publication, and placement of advertising to 2.75 percent of gross revenues. For fiscal years 1993 and 1994, respectively, the Lottery recorded advertising expenses of 2.53 percent and 2.70 percent of gross revenues.

Minn. Stat. Section 349A.10, Subd. 5 requires the Lottery to deposit net proceeds at the end of each month in the state treasury. Net proceeds are defined as the balance in the lottery fund after transfers to the lottery prize fund and credits to the lottery operations account. Of the net proceeds, the Environment and Natural Resources Trust Fund receives 40 percent and the General Fund receives the remainder.

In accordance with Minn. Stat. Section 297A.259, each month the Lottery transmits 6.5 percent of gross receipts from the sale of lottery tickets for the previous month to the Department of Revenue. Table 4.1 highlights the Lottery's gross revenues, operating and advertising expenses, and transfers to state funds for fiscal years 1993 and 1994.

Table 4-1
Administrative Expenses
Fiscal Years 1993 and 1994

	1993 Amount	Percent of Gross Revenue	1994 Amount	Percent of Gross Revenue
Total Revenue	$329,905,194		$332,677,590	
Payments in Lieu of Sales Tax	(21,374,335)		(21,545,886)	
Gross Revenue	$308,530,859		$311,131,704	
Advertising Expenses	7,800,355	2.53%	8,410,787	2.70%
Other Operating Expenses	28,551,908		31,424,598	
Total Operating Expenses	$36,352,263	11.78%	$39,835,385	12.80%
Payments to Beneficiaries	57,144,789	18.52%	59,369,249	19.08%

Source: 1994 Annual Financial Statements, statewide accounting reports, Lottery general ledger.

We focused our review of administrative expenses on the following objectives:

- Were net proceeds after expenses transferred according to statute?
- Were payments in lieu of sales tax calculated and transferred properly?

We focused our audit objectives on compliance with Minnesota statutes governing the Lottery's transfers to state funds. Our audit procedures included inquiries of agency staff, verification of amounts transferred to beneficiaries, and payments in lieu of sales tax. We verified that the Lottery complied with statutory provisions for the payment of sales tax and transfers to beneficiaries.

MINNESOTA STATE LOTTERY®

Proceeds Benefit Our Natural and Economic Environments.

George R. Andersen
Director

January 16, 1996

Mr. James R. Nobles
Legislative Auditor
1st Floor S
Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

We have reviewed the revised draft audit report on the Minnesota State Lottery for the two years ending June 30, 1994, and this letter represents the Lottery's comments on that report.

Periodic retailer incentive programs are a key component of the Lottery's marketing plan. Retailer response to these programs dramatically boosts sales and state profits. The Lottery allocates 1% of each instant game's sales for this purpose. It is noted on the books as a payable, while the funds thus earmarked are held in the state treasury. State law now requires all such monies to be transferred to a cash flow account in the treasury. Interest on the funds is allocated by statute (Minn. Laws 1995, Chapter 254, article 1, section 86).

The Lottery law requires a segregation of accounts - operating, prize and commissions - and book entries are separately maintained. This methodology reflects generally accepted accounting principles, and also facilitates a clear and traceable financial sheet. The Lottery, in accumulating the obligation (payable) over time, is adopting a prudent and conservative accounting practice that avoids the potential disruption to beneficiary cash flow, and protects the interests of the Lottery if the lump sum were to be withheld at one time. Since funds are already in the state treasury, and since interest thereon benefits the state, we believe that the suggestion carries no advantage to the beneficiaries. Had the 1995 enactment not been made, some short term cash flow advantage to the state would have been realized. Nevertheless, since the retailer incentive is a payable, the obligation would remain unchanged.

Minnesota State Lottery 2645 Long Lake Road, Roseville, Minnesota 55113-2533 (612) 635-8210 Fax (612) 297-7496
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Mr. James R. Nobles
January 16, 1996
Page Two

Finding # 2: I believe that competitive procurements are good public policy, but where, however, they would prevent both significant financial and technological advantages for Minnesota (and where extensions are both contemplated by the contract and an industry practice), it is obvious that alternatives must be considered. In this instance, the Lottery considered re-bidding the on-line game services contract, but came to the conclusion in December 1993 after a great deal of public discussion and consultation, that it was in the best interest of the state to amend its current contract with Automated Wagering International (AWI). The Lottery receives new, advanced hardware and software capable of running our current games, while permitting a wider array of new game implementations on demand without lengthy re-programming. The new system also allows ancillary services and provides a new in-store terminal research capability. The new equipment and capability was to be provided at no additional cost to the Lottery. In fact, the new method of calculating the commission to AWI has actually <u>reduced</u> the Lottery's expenditures to AWI by over $70,000 last year.

The decision made in January, 1994, to amend and extend the Lottery's contract with AWI was legal and in the best interest of the Lottery and the State of Minnesota. The Lottery knows of no reason why a competitive procurement would not be utilized when the contract with AWI expires in the year 2000. It is certainly our intent to do so.

Thank you for the opportunity to comment on your report.

Very truly yours,

George R. Andersen

George R. Andersen
Director

GRA:kre