

STATE OF LOUISIANA
LEGISLATIVE AUDITOR



Louisiana Lottery Corporation
Basic and Supplemental Retirement Plans
State of Louisiana
Baton Rouge, Louisiana

June 24, 1999



Financial and Compliance Audit Division

*Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor*

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**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended December 31, 1997**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

June 24, 1998

LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended December 31, 1997

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June 4, 1998

Independent Auditor's Report
on the Financial Statements

**BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans as of December 31, 1997, and the related statement of changes in net assets available for benefits for the year then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans as of December 31, 1997, and the changes in net assets available for benefits for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated June 4, 1998, on our consideration of the Louisiana Lottery Corporation Basic and Supplemental Plans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Respectfully submitted,

David G. Kyle, CPA, CFE
Legislative Auditor

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jmm:mg

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 FIDUCIARY FUND - BASIC AND
 SUPPLEMENTAL RETIREMENT PLANS

Statement of Net Assets Available for Benefits
 For the Year Ending December 31, 1997

	CASH MARKET FUND	MID CAP-PROGME PORTFOLIO	VANGUARD WORLDWIDE	CREDIT MULTI-TOTAL STANDARD & POOR'S 500 STOCK INDEX
ASSETS				
Investments (note 2)	\$4,000	\$5,471	\$1,124,045	\$28,408
Employer contributions receivable	777	74	2,380	8,188
TOTAL ASSETS	<u>\$4,777</u>	<u>\$5,545</u>	<u>\$1,126,425</u>	<u>\$36,596</u>
LIABILITIES	<u>\$708</u>	<u>\$708</u>	<u>\$708</u>	<u>\$708</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$4,069</u></u>	<u><u>\$4,837</u></u>	<u><u>\$1,125,717</u></u>	<u><u>\$35,888</u></u>

The accompanying notes are an integral part of this statement.

WANGARD U.S. GROWTH PORTFOLIO	WMA VALUE PORTFOLIO	FRANKLIN SMALL CAPITAL GROWTH FUND	FRANKLIN BALANCE SHEET INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
\$21,277	\$41,761	\$25,400	\$5,511	\$4,887	\$10,246,514
(5,884)	(5,232)	(2,017)	(1,000)	(1,448)	(94,000)
\$15,393	\$36,529	\$23,383	\$4,511	\$3,439	\$10,152,514
100%	100%	100%	100%	100%	100%
\$21,277	\$36,529	\$23,383	\$4,511	\$3,439	\$10,152,514

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LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 FIDUCIARY FUND - BASIC AND
 SUPPLEMENTAL RETIREMENT PLANS

Statement of Changes in Net Assets Available for Benefits
 For the Year Ending December 31, 1987

THE GROUP TREASURY MONETARY INVESTMENT	CITY OF BILOBI, LA (A)				
	FOOD (INCOME)	CAPITAL APPLICATION	BALANCED FUND	BASIC RETIREMENT PLANS	
ADDITIONS TO ASSETS					
Investment income	\$1,140	\$1,680	\$108,814	\$33,850	\$103,287
Contributions:					
Pays and			15,771	51,227	118,417
Employer	2,280	2,280	21,325	22,487	89,082
Total additions	2,280	2,280	37,096	73,714	207,501
DEDUCTIONS FROM ASSETS					
Benefits paid to participants	(15)	(2,000)	(80,000)	(11,700)	(93,815)
Increase (decrease) in assets before market benefits and commissions	2,010	1,280	17,814	49,527	224,973
Market transactions, net	2,480	(3,100)	3,100	(200)	10,280
Plan administration expenses	(20,400)	(24,517)	(225,517)	(250,000)	(720,434)
Increase (decrease) in assets	(15,905)	(15,227)	(182,603)	(201,673)	(515,408)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	102,471	101,201	790,400	321,040	1,315,112
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	86,566	85,974	607,797	119,367	800,704

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 FIDUCIARY FUND - BASIC AND
 SUPPLEMENTAL RETIREMENT PLANS
 Statement of Net Assets Available for Benefits, 1997

			FAR AMERICAN LIFE	
	MONEY MARKET FUND	ERF (FIDELITY&DODD) PORTFOLIO	VANGUARD WILLINGTON	BREYFUS INSTITUTIONAL STANDARD-S FIDELITY 500-STOCK INDEX
ADDITIONS TO ASSETS				
Investment income	\$ 540	\$2,893	\$98,954	\$65,243
Contributions				
Participant			118,487	1,781
Employer	1,170	2,778	70,528	21,493
Total additions	1,710	5,671	189,969	112,517
DEDUCTIONS FROM ASSETS				
Benefits paid to participants	(750)	(2,800)	(148,830)	(85,240)
Increase (or net assets) before transfer of funds and commissions	1,010	(909)	201,103	(1,482)
Transfer funds, net	811	(2,000)	(77,370)	(28,880)
Plan administrator commission	(8,480)	(4,877)	1,895,780	808,873
Increase (decrease) in assets	\$5,341	\$1,204	2,119,493	806,891
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	\$208	\$248	\$248	\$248
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$263	\$1,204	\$2,120,693	\$808,381

(Concluded)

The accompanying notes are an integral part of this statement.

INSURANCE COMPANY

VANGUARD- U.S. GROWTH PORTFOLIO	BAR VILLAGE PORTFOLIO	FRANKLIN SMALL CAPITAL GROWTH FUND	FRANKLIN BALANCE SWEEP INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
\$55	\$55	(\$40)	\$155	(\$40)	\$545,124
1,04				70	250,499
<u>27,874</u>	<u>21,004</u>	<u>12,490</u>	<u>5,730</u>	<u>5,470</u>	<u>208,889</u>
<u>28,029</u>	<u>21,059</u>	<u>12,530</u>	<u>5,745</u>	<u>5,540</u>	<u>7,148,597</u>
<u>(20)</u>	<u>(15)</u>	<u>(7)</u>	<u>(2)</u>	<u>(15)</u>	<u>(280,741)</u>
28,280	21,228	12,523	5,881	5,525	718,646
5,175	18,888	10,021	1,118	NONE	NONE
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
28,499	27,803	28,223	8,897	5,525	748,691
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>3,133,690</u>
<u>528,420</u>	<u>527,604</u>	<u>528,228</u>	<u>58,867</u>	<u>58,860</u>	<u>\$1,276,643</u>

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**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 1997**

INTRODUCTION

The Louisiana Lottery Corporation (Corporation) is authorized under Louisiana Revised Statute (R.S.) 47:5615(A) to provide or arrange for a retirement plan. The Corporation's Basic and Supplemental Retirement Plans (Plans) have been established pursuant to this statute.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Corporation's Plans report on their financial position and results of operations. The financial statements account for contributions from participants and the employer, investment income, and benefits distributed to participants.

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 3100, the Division of Administration, Office of Statewide Reporting and Accounting Policy has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered to be a component unit of the State of Louisiana because the state has financial accountability for the Corporation. Because of the fiduciary responsibility of the Corporation as employer, the Plans are a component unit of the Corporation. The accompanying financial statements present information only as to the transactions of the Corporation's Basic and Supplemental Retirement Plans. The Corporation's financial statements and note disclosure relating to the Plans are reported within the State of Louisiana's Comprehensive Annual Financial Report, which is audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements. The financial statements of the Corporation's Plans are accounted for using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when incurred. The Plans use the following practices in recognizing revenues and expenses:

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LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Contributions

Employer and employee contributions are recognized in the period when the compensation used to calculate the contributions is reported on Internal Revenue Service (IRS) Form W-2.

Investment Income

Investment income is accrued as earned, net of applicable investment management fees.

Plan Expenses

Fees related to the administration of the Plans are paid by the Louisiana Lottery Corporation. Investment management fees are billed daily from investment income and, therefore, are not a liability of the Plans at December 31, 1997.

D. VALUATION OF INVESTMENTS

Investments in money market and mutual funds are reported at fair value, which is based on deposit values and quoted market prices.

2. DESCRIPTION OF THE PLANS

As of December 31, 1997, there were 139 participants in the Basic Plan and 128 participants in the Supplemental Plan.

A. Basic Retirement Plan

The Corporation has a money purchase plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, which is intended to constitute a safe harbor within the meaning of Section 3121 (b)(7) of the code and the regulations promulgated thereunder. The Basic Retirement Plan, which is a defined contribution plan, began September 1, 1993, with all employees eligible except those who had coverage under a state retirement plan and those who are either independent contractors or leased employees.

Under the terms of the plan, an employee is eligible to participate in the plan immediately upon employment.

As defined in the Basic Retirement Plan, the Corporation's contribution shall be 5% of the participant's compensation for each plan year. The participant's contribution shall equal 6.2% of his or her compensation for each plan year.

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

A participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation. No more than the social security wage base in effect as of the first day of the plan year shall be treated as compensation. As of June 1, 1994, the Corporation elected to treat all contributions to the basic retirement plan as pre-tax.

The distribution of a participant's benefits shall commence as of the date designated by the participant (annuity starting date) after termination of employment with the Corporation, but shall not be later than April 1 of the year following the calendar year in which the participant attains age 70½. The participant shall make a qualified election to receive the distribution in the form of a single-sum payment or to purchase a qualified joint and survivor annuity or single life annuity contract. This qualified election may be revoked, modified, or amended at any time, or multiple times before the participant's annuity starting date; however, the qualified election is irrevocable as of the participant's annuity starting date.

B. Supplemental Retirement Plan

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The Corporation contributes 4.5% of each participant's compensation for the year, as defined. Participants are not permitted to contribute to the plan. An eligible employee shall participate in the plan as of the entry date that coincides with or immediately follows the date in which the eligible employee completes 90 consecutive calendar days of employment with the Corporation.

In addition, each plan year, the board of directors of the Corporation may determine the amount of a discretionary contribution not to exceed 2% of each participant's compensation for any plan year.

A participant's amount shall be fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement age (65 years of age) or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service. Each participant employed by the Corporation before January 1, 1982, shall be credited with a special year of service if the employee completed at least 500 hours of service before such date. Any forfeiture of nonvested amounts shall be reallocated to the accounts of all the remaining participants. In no event shall the assets of this plan revert for the benefit of the Corporation.

The distribution of a participant's vested and nonforfeitable portion of his/her account shall be made in the form of a single-sum payment no later than 60 days following the date after the participant terminates employment with the Corporation, attains the normal retirement age, or dies. A participant may elect to postpone the distribution, in writing on forms provided by the Employee Benefits Committee, provided, however, in no event

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LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

shall distribution be postponed later than April 1 following the close of the calendar year in which the participant attains age 70½.

3. INVESTMENTS

The Corporation is authorized under P.L.S. 47-3015(A) to provide for a retirement plan for its employees and is responsible for making all decisions to establish and maintain a sound plan. Before July 1, 1997, the Plans' investments were held by City National Bank's trust department, and the mutual funds were purchased through Bank One. Effective July 1, 1997, administrative and investment services are provided by Pan American Life Insurance Company. All mutual funds previously held by City National Bank's trust department were transferred to similar mutual funds that are held in separate accounts established through a group annuity contract with Pan American.

Since all investments of the Plans are open-end mutual funds, generally accepted accounting principles do not require that these investments be classified into credit risk categories.

At December 31, 1997, investments are composed of the following:

	Number of Units	Fair Value
Money Market Fund	23,009	\$99,395
M&S Fixed-Income Portfolio	3,608	50,471
Vanguard Wellington	66,814	2,125,576 (1)
Chryfus Institutional S&P 500 Stock Index	44,007	920,938 (1)
Vanguard U.S. Growth Portfolio	734	21,675
M&S Value Portfolio	1,579	31,682
Franklin Small Capital Growth Fund	1,060	26,408
Franklin Balance Sheet Investment	145	5,211
Templeton Foreign Fund	451	4,067
		<u>\$3,245,514</u>

(1) Individual investments that represent 5% or more of the Plan's net assets available for benefits.

LEGISLATIVE AUDITOR

LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

4. INVESTMENT MANAGEMENT FEES

Under the agreement with Pan American Life Insurance Company, the Plans are charged an investment management fee (calculated and deducted from investment income daily) based upon the Plans' daily net assets as follows:

<u>Fund</u>	<u>Fee</u>
Money Market Fund	NONE
MAS Fixed-Income Portfolio	0.25%
Vanguard Wellington	0.50%
Dreyfus Institutional S&P 500 Stock Index	0.50%
Vanguard U.S. Growth Portfolio	0.50%
MAS Value Portfolio	0.25%
Franklin Small Capital Growth Fund	0.10%
Franklin Balance Sheet Investment	NONE
Templeton Foreign Fund	0.10%

During the year ended December 31, 1997, investment management fees of \$6,789 were incurred.

5. INCOME TAX STATUS

The Basic Retirement Plan obtained its latest determination letter on September 10, 1994, and the Supplemental Retirement Plan obtained its latest determination letter on October 2, 1992. The IRS stated that the Plans, as then designed, were in compliance with the applicable requirements of the Internal Revenue Code. The Plans have been amended since receiving the determination letters. However, the Plans' tax counsel believes that the Plans are currently designed and are being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Plans were qualified and were tax-exempt as of the financial statement date.

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

8. ALLOCATION OF CONTRIBUTIONS

**A. City National Bank/Bank One
(January 1, 1997, through June 30, 1997)**

During the period January 1, 1997, through June 30, 1997, participants in the Supplemental Plan could direct the investment of employer contributions to the four investment models in increments of (a) 0%, (b) 25%, (c) 50%, (d) 75%, or (e) 100%. The four investment models and the mutual fund allocations are as follows:

Money Market Model	
One Group U.S. Treasury Securities	100%
Income Model	
One Group Limited Volatility Bond	20%
One Group Government Bond	80%
Balanced Model	
One Group Limited Volatility Bond	15%
One Group Government Bond	45%
One Group Income Equity	10%
One Group Value Growth	25%
One Group Gulf South	5%
Capital Appreciation Model	
One Group Limited Volatility Bond	10%
One Group Income Equity	20%
One Group Value Growth	50%
One Group Gulf South	20%

Participants' contributions in the Basic Retirement Plan were invested in the following balanced model:

One Group Limited Volatility Bond	15%
One Group Government Bond	45%
One Group Income Equity	15%
One Group Value Growth	15%
One Group Gulf South	10%

LEGISLATIVE AUDITOR

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

**B. Pan-American
(July 1, 1987, through December 31, 1987)**

Basic Retirement Plan employer and employee contributions are invested in the Vanguard Wellington Fund.

Participants in the Supplemental Plan can allocate the investment of employer contributions in whole percentages to any combination of funds reflected in note 3 and on Statement A. The investment allocations can be changed on a daily basis.

7. TERMINATION

Although it has not expressed any intent to do so, the board of directors of the Corporation has the right, at any time, to terminate the Plans, in whole or in part, by delivering written notice to the administrative services provider and to each participant of such termination. A complete discontinuance of the Corporation's contributions to the Plans shall be deemed to constitute a termination. Upon such termination, the Employee Benefits Committee shall direct the administrative services provider to distribute the assets of the Plans to the participants.

Upon termination (whether full or partial) or a complete discontinuance of contributions, all amounts allocated to the accounts of affected participants shall become fully vested and nonforfeitable.

8. MERGERS

The Plans may be merged or consolidated with, or its assets and liabilities may be transferred to another plan only if the benefits which would be received by a participant in the event of a termination of the Plans immediately after such transfer, merger or consolidation are at least equal to the benefit such participant would have received if the Plans had terminated immediately before the transfer, merger or consolidation.

9. LITIGATION

There is no pending litigation against the Plans at December 31, 1987.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal controls as required by Government Auditing Standards, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF
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June 4, 1999

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards

**BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the financial statements of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans as of and for the year ended December 31, 1998, and have issued our report thereon dated June 4, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

EXHIBIT A

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
Compliance and Internal Control Report
June 4, 1998
Page 2

This report is intended for the information and use of the Louisiana Lottery Corporation and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

MMQ/THC:dl

(10/98)