

Maryland Lottery and Gaming Control Agency

Larry Hogan, Governor • Gordon Medenica, Director



Montgomery Park Business Center
1800 Washington Blvd., Suite 330
Baltimore, Maryland 21230

Tel: 410-230-8800
TTY users call Maryland Relay
www.mdlottery.com

To: Members of the Mega Millions Consortium
Multistate Lottery Association

From: Gordon Medenica

A handwritten signature in blue ink, appearing to be "GM", written over the name "Gordon Medenica".

Date: May 2, 2018

Re: Agreed Upon Procedures for Mega Millions

As the Mega Millions Lead Director, I hereby endorse the procedures required for party lotteries to conduct their annual reviews for Mega Millions. This authority is set out in the Mega Millions Members' Finance and Operations Procedures for Mega Millions (effective 10/31/17), Section 1.2.

The Mega Millions game matrix, and prize structure, changed effective with the drawing of 10/31/2017. The reviews conducted will need to consider the appropriate prize structure in place for the drawings selected in the review samples. Although the game matrix and jackpot contribution rates did change, the fixed prize allocation procedures and practices did not change. Therefore, the same procedures are set out for the current review period of 4/1/2017 – 3/31/2018. In particular:

For party lotteries identified in 1.2.1 – Attachment 1

For the California Lottery identified in 1.2.2 – Attachment 2

For Members of the Multi-State Lottery Association (MUSL) identified in 1.2.2 – Attachment 3

The Finance and Operations Procedures require these reviews to be complete and related reports distributed no later than December 31, 2018.

Attachment 1

- a. Obtain from the (Your Lottery's Name) the "Draw Activity" and the "Fixed Prize Analysis" for the period April 1, 2017 – March 31, 2018 and attach those as Exhibits I and II, respectively. Prove the mathematical accuracy of the schedules and note any exceptions.
- b. Randomly select five (5) draw dates from the period April 1, 2017 – March 31, 2018.
- c. For each draw date selected in step "b" above, compare the total amount of sales as shown on the daily sales report produced by the (Your Lottery's Name)'s gaming system and the total amount of sales shown on the related daily sales report produced by Internal Control System ("ICS"), with the balance listed in the "sales" column for the respective draw date on the "Draw Activity" report attached as Exhibit I and ensure they are in agreement.
- d. Calculate the total dollar amount of the fixed prizes for the draw dates selected in step "b" above, based on the total number of winners from the (Your Lottery's Name)'s gaming system for each prize level and the prize structure of the Mega Millions fixed prizes (as defined in the official game rules). Compare the calculated expense with the amount listed in the "Actual Fixed Prizes" column for the respective draw date on the "Draw Activity" report attached as Exhibit I and ensure they are in agreement.
- e. For each draw date selected in step "b" above, compare the amount of sales, actual fixed prizes, and share of fixed prizes shown on the "Draw Activity" report attached as Exhibit I to the amounts shown on the applicable Mega Millions Prize Settlement Reports and ensure they are in agreement.
- f. For the period identified, randomly select two months and obtain the "Expired Prize Settlement Report" distributed by the Virginia Lottery. For the two months selected, obtain from the (Your Lottery Name) Internal Control System (ICS) the actual fixed prizes awarded, and the prizes unclaimed. Compare 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. Compare the amounts shown as the total of the actual fixed prizes and the total of the share of fixed prizes on the "Draw Activity" report attached as Exhibit I to the applicable amounts shown on the "Fixed Prize Analysis" report attached as Exhibit II and ensure they are in agreement.
- h. For the amount (if any) listed in the "Cash Options Amount" column of the "Draw Activity" report attached as Exhibit I, obtain and compare the amount to the (Lottery Name)'s cash disbursement subsidiary records which summarize the funds disbursed to the prize winner.
- i. For each purchase (if any) of investments associated with the jackpot prizes:
 1. Review broker confirmations to verify that investments are funded in accordance with allowed investment vehicles per the multi-state rules, regulations or procedures.
 2. Obtain the bid sheets and supporting documentation and verify the investments were purchased through a competitive bidding process involving a minimum of three brokerage firms.
 3. Review the (Lottery Name)'s cash disbursement subsidiary records and confirm that the payment to the broker, plus the cash held by the Lottery for the initial cash payment, equals the "Cash Option Payment" on the settlement report applicable to that draw.
 4. Obtain the Security Purchase report which lists the results of the security purchase and verify that the information reported to the group is accurate, including the annuity factor for the non-winning bidders.
- j. Compare the total of the period transfers from/to (Your Lottery) to/from the Virginia Lottery for settlement of the fixed prize liability as shown in the (Your Lottery's Name)'s cash disbursement/cash receipt subsidiary records to the amount listed in the "Qtrly/Yrly Settlements Transfers In (Out)" column on the "Fixed Prize Analysis" report attached as Exhibit II and ensure they are in agreement.
- k. Compare the balance listed as the (Your Lottery's Name)'s receivable as of (period ending date as agreed to by member lotteries) for the fixed prizes as shown on the "Fixed Prize Analysis" report attached as Exhibit II to the (Your Lottery's Name)'s financial accounting records and to the Mega Millions Prize Settlement Report as of (period ending date as agreed to by member lotteries) and ensure they are in agreement.

Attachment 2

- a. Obtain from the California Lottery the "Draw Activity" for the period April 1, 2017 – March 31, 2018, and attach that as Exhibit I. Prove the mathematical accuracy of the schedule and note any exceptions.
- b. Randomly select five (5) draw dates from the period April 1, 2017 – March 31, 2018.
- c. For each draw date selected in step "b" above, compare the total amount of sales as shown on the daily sales report produced by the California 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 draw date on the "Draw Activity" report attached as Exhibit I and ensure they are in agreement.
- d. For the amount (if any) listed in the "Cash Options Amount" column of the "Draw Activity" report attached as Exhibit I, obtain and compare the amount to the California Lottery's cash disbursement subsidiary records which summarize the funds disbursed to the prize winner.
- e. For each purchase (if any) of investments associated with the jackpot prizes:
 1. Review broker confirmations to verify that investments are funded in accordance with allowed investment vehicles per the multi-state rules, regulations or procedures; and
 2. Obtain the bid sheets and supporting documentation and verify the investments were purchased through a competitive bidding process involving a minimum of three brokerage firms.
 3. Review the California Lottery's cash disbursement subsidiary records and confirm that the payment to the broker, plus the cash held by the Lottery for the initial cash payment, equals the "Cash Option Payment" on the settlement report applicable to that draw.
 4. Obtain the Security Purchase report which lists the results of the security purchase and verify that the information reported to the group is accurate, including the annuity factor for the non-winning bidders.

Attachment 3

- a. Obtain from the Multi-State Lottery Association the "Draw Activity" for the period April 1, 2017 – March 31, 2018, and attach that as Exhibit I. Prove the mathematical accuracy of the schedule and note any exceptions.
- b. Randomly select five (5) draw dates from the period April 1, 2017 – March 31, 2018.
- f. For each draw date selected in step "b" above, compare the total amount of sales as shown on the daily sales report produced by the Multi-State Lottery Association Draw Reporting System and the total amount of sales shown on the related daily sales report produced by Centralized Automated Reporting System, with the balance listed in the "sales" column for the respective draw date on the "Draw Activity" report attached as Exhibit I and ensure they are in agreement.
- g. For the amount (if any) listed in the "Cash Options Amount" column of the "Draw Activity" report attached as Exhibit I, obtain and compare the amount to the Multi-State Lottery Association's cash disbursement subsidiary records which summarize the funds disbursed to the prize winner or specific member State Lottery and verify agreement.
- h. For any cash disbursement to a specific member State Lottery, obtain further confirmation that the payment of the "Cash Options Amount" to the validated ticket winner was correctly and fully disbursed.
- i. For each purchase (if any) of investments associated with the jackpot prizes:
 1. Review broker confirmations to verify that investments are funded in accordance with allowed investment vehicles per the multi-state rules, regulations or procedures; and
 2. Obtain the bid sheets and supporting documentation and verify the investments were purchased through a competitive bidding process involving a minimum of three brokerage firms.
 3. Review the Multi-State Lottery Association's cash disbursement subsidiary records and confirm that the payment to the broker, plus the cash held by the Multi-State Lottery Association for the initial cash payment, equals the "Cash Option Payment" on the settlement report applicable to that draw.
 4. Obtain the Security Purchase report which lists the results of the security purchase and verify that the information reported to the group is accurate, including the annuity factor for the non-winning bidders.