

**STATE OF NEW HAMPSHIRE  
LOTTERY COMMISSION**

**MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Lottery Commission (Lottery), a department of the State of New Hampshire, as of and for the fiscal year ended June 30, 2012 and have issued our report thereon dated December 17, 2012.

This management letter, a product of the audit of the New Hampshire Lottery Commission for the fiscal year ended June 30, 2012, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix, included as an attachment to the management letter, provides a summary of the status of observations presented in the fiscal year 2011 management letter of the Lottery Commission.

The Lottery is again submitting its comprehensive annual financial report (CAFR) to the Government Finance Officers Association (GFOA) for consideration for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. A certificate of achievement is a prestigious national award for CAFRs that are prepared in accordance with program standards. The program standards are intended to promote easily readable and understandable financial reports that demonstrate financial accountability and comparability. The Lottery received GFOA certification for its 2011 CAFR, and it is believed that the 2012 CAFR also conforms to the certificate of achievement program requirements. A copy of the Lottery's 2012 CAFR can be obtained from the New Hampshire Lottery Commission, 14 Integra Drive, Concord, NH 03301. The Lottery CAFR can also be accessed online at:

[http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Lottery\\_2012\\_CAFR.pdf](http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Lottery_2012_CAFR.pdf).

  
Office Of Legislative Budget Assistant

December 17, 2012

**STATE OF NEW HAMPSHIRE  
LOTTERY COMMISSION  
2012 MANAGEMENT LETTER**

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\* No audit comments suggest legislative action may be required.

This report can be accessed in its entirety on-line at:  
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

## **Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters**

*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Lottery Commission as of and for the fiscal year ended June 30, 2012 and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the Lottery Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lottery Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery Commission's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting described in Observations No. 1 through No. 12 that we consider to be significant deficiencies in internal

control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lottery Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Lottery Commission's written response accompanies each observation in this report. We did not audit the Lottery Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the New Hampshire Lottery Commission, others within the Lottery Commission, and the Fiscal Committee of the General Court, and is not intended to be used by anyone other than these specified parties.

  
Office Of Legislative Budget Assistant

December 17, 2012

**Internal Control Comments**  
**Significant Deficiencies**

**Observation No. 1: Perform Risk Assessments**

*Observation:*

Lottery did not perform any risk assessments during fiscal year 2012, contrary to Lottery's policies and procedures which require at least semiannual risk assessments. Lottery also reported it did not take actions suggested by its May 2011 risk assessment.

A primary tenet of effective internal controls is a periodic assessment of, and reaction to, identified risks. Without this proactive approach to risk, an entity tends to operate in a reactive mode, often addressing risks only after a loss has been incurred.

Lottery reported a formal risk assessment was completed in November 2012.

*Recommendation:*

Lottery should perform risk assessments as outlined in its policies and procedures. Actions identified in those assessments to mitigate recognized risks should be performed timely.

*Auditee Response:*

We concur. A formal Policies and Procedure for Risk Assessment document was completed and provided to the auditors in November 2012. The committee will meet every June and December to ensure policies are being followed.

**Observation No. 2: Comply With Draw Room Policies And Procedures**

*Observation:*

Lottery did not consistently adhere to its policies and procedures for controlling entry into the Lottery's draw room during fiscal year 2012.

Lottery's Winning Number Draw Procedures and Policies Manual (Manual) provides, "in the event that entry to the draw room is necessary at non-draw times, and for reason other than for emergency purposes, written notification will be first made to the Lottery Security Director or the Security Director's designee." In addition, the Security Director receives a pop-up notification on a computer screen when the room is accessed and the draw room has video camera surveillance.

A review of the draw room access logs for two sample months indicated timely written notification was not documented as having been provided for 35 of the 40 entries into the draw

room occurring outside of normal game draw times during the months of October 2011 and February 2012. Five entries into the draw room were documented in compliance with the Manual's policy and procedure.

While the Security Director could have monitored the activity in the draw room by watching the video when notified by the pop-up, there is no documentation that the video was reviewed.

A similar comment was included in the fiscal year 2011 management letter.

*Recommendation:*

Lottery should require compliance with draw room security policies and procedures.

Lottery should monitor compliance with policies and procedures to ensure compliance is maintained and that the policies and procedures retain relevance.

*Auditee Response:*

We concur. The policy and procedures for controlling access to the draw room have been updated. For non-draw times, employees with access to the draw room may enter to:

- 1) Retrieve records of drawings
- 2) Retrieve related camera equipment
- 3) To respond to an alarm/emergency
- 4) For vendor to maintain equipment
- 5) For any further disaster recovery

The draw room is electronically monitored by security at all times. In the event that entry to the draw room is necessary at non-draw times, and for reason other than for emergency purposes (item number 3 above), written notification will be made to the Deputy Director and all requests will be documented.

**Observation No. 3: Establish Policies And Procedures To Prevent Prize Payments To Ineligible Players**

*Observation:*

Lottery has not established policies and procedures to prevent the payment of Lucky for Life game prizes to players deemed ineligible by game rules.

Part VI, F, 3. Ineligible Players of the Lucky for Life Official Game Rules, states,

“Lucky for Life” Game Tickets shall not be purchased, and a prize won by any such Game Ticket or share, either in whole or in part, shall not be paid to:



- a. A Party Lottery employee, officer, director, board member, or commissioner.
- b. A contractor or consultant under agreement with any Party Lottery to perform audit and security procedures.
- c. An employee of the independent certified public accounting firm under contract with any Party Lottery to oversee “Lucky for Life” drawings.
- d. An employee of the Party Lottery’s on-line vendor.
- e. An employee of the Party Lottery’s advertising or public relations provider.
- f. An employee of the Party Lottery’s instant ticket print vendor.
- g. An immediate family party (parent, stepparent, child, stepchild, spouse, sibling or person engaged in a domestic partnership or civil union) of an individual described in Subsections a, b, c, d, e or f residing as a member of the same household in the principle place of residence of any such person.
- h. Those persons designed herein as ineligible to play the “Lucky for Life” game shall also be ineligible to play the “Lucky for Life” game in all other Party Lottery states selling the game.

Lottery maintains a list of its current on-line gaming employees and, prior to paying a Lucky for Life game prize, reviews the list to ensure prizes are not inappropriately paid to an ineligible listed party. Lottery does not have policies and procedures to prevent payment to any other ineligible players.

Without appropriate policies and procedures, Lottery is at an increased risk of making Lucky for Life game prize payments to ineligible players.

*Recommendation:*

Lottery, in coordination with its Lucky for Life game partner lotteries, should establish policies and procedures to prevent Lucky for Life game prize payments being made to ineligible players.

Lottery, in coordination with its Lucky for Life game partner lotteries, should determine the level of assurance required to ensure prizes are not paid to ineligible players. Based on that determination, Lottery should establish policies and procedures that respond to the level of assurance required. Policies and procedures could include maintaining comprehensive lists of identified ineligible players and ensuring prize claimants are checked against the list prior to the Lottery making Lucky for Life game prize payments. In order for that control to be effective, Lottery and the party lotteries will require the cooperation of identified ineligible players to also identify their immediate family members. In addition, the list will need to be continuously updated to maintain currency. Alternatively, or in conjunction with the use of a list of ineligible players, Lottery could require certifications from claimants that attest to their eligibility.

*Auditee Response:*

We concur. The New Hampshire Lottery will work with the Lucky For Life partner lotteries in establishing policies and procedures that will ensure prizes are not paid to ineligible players.

#### **Observation No. 4: Improve Controls Over Replay Program**

*Observation:*

Unaddressed weaknesses in Lottery's controls over its Replay program increase the risks the program will not operate as intended by Lottery management, exposing the Lottery to unanticipated financial risks and risk of loss of consumer confidence. Risks to Lottery's operations from the lack of documentation of the Replay program was first noted in a fiscal year 2009 audit management letter comment. Lottery has not significantly improved its controls over the Replay program system since that initial observation.

The Lottery's Replay program is primarily an Internet-based, non-lottery game where players, upon registering and providing certain personal information, can enter non-winning Lottery tickets in exchange for Replay Points. These points can be used to purchase entries for drawings to win various merchandise prizes, which have been provided by businesses (advertising partners) in exchange for promotional consideration on the Replay website. The Lottery and its advertising vendor use the players' demographic information in marketing the Lottery's games. The Replay system is comprised of a website, database, and random number generator (RNG). Drawings are held monthly using the RNG to select winners from the population of entries.

The three prior fiscal year management letter observations have commented on lack of documentation of Lottery and vendor rights and responsibilities and concerns over process and information security.

While the Lottery began discussions with its advertising vendor for the provision of a report on controls at a service organization relevant to security, availability, processing integrity, confidentiality and privacy (commonly known as a SOC 2 report) covering the Replay program, limited actions were taken to resolve these issues during fiscal year 2012.

*Recommendation:*

The Lottery should ensure that all critical aspects of, and responsibilities for, the Replay program and system are fully understood and documented by current contracts, agreements, and system documentation.

The Lottery should require its advertising vendor to establish and document the controls provided in the Replay system to ensure that any risk in the Replay system does not call into question the integrity of the Lottery's games. Those documented controls should include information technology general and application controls, including administrative and other access controls, program change controls, regular plans of system monitoring and testing, and reviews of the security over the Replay system and the information the system contains.

The Lottery should continue with its plan for the advertising vendor to procure and provide to the Lottery a SOC 2 report on controls over the operation of the Replay program.

*Auditee Response:*

We concur. A review of NH Lottery Replay is currently underway and a SOC 2 report on the controls over the operation of the Replay program will be prepared and made available to the NH Lottery for review.

**Observation No. 5: Improve Segregation Of Duties Over Merchandise Prizes For The Replay Program**

*Observation:*

While Lottery made improvements in controls over merchandise prizes used in the Lottery's Replay program during fiscal year 2012, an inadequate segregation of duties remained in the control activities over that prize inventory.

During prior audits, we noted one Lottery employee has the incompatible responsibilities of receiving, accounting for, maintaining custody of, and distributing merchandise prizes used in the Lottery's Replay program. During fiscal year 2012, Lottery revised its prize tracking procedures but did not adequately mitigate the segregation of duties concern.

The lack of segregation of duties in the Lottery's controls over the receipt, holding, reporting, and disbursement of Replay program merchandise prizes increases the risk that errors or frauds may occur which would not be detected and corrected in the normal course of business.

During fiscal year 2012, the Lottery reported it awarded \$264,337 in replay prizes. At June 30, 2012, the Lottery reported \$47,865 of Replay merchandise prize inventory was on hand.

*Recommendation:*

Lottery should improve the segregation of duties over accepting, holding, reporting, and disbursing of merchandise prizes for its Replay program. Responsibilities for the custody and reporting of the merchandise prize inventory should be properly segregated to ensure employees with the ability to cause errors and frauds are not also responsible for detecting the errors and frauds they may cause.

Improved year-end inventory procedures could mitigate certain of the noted segregation of duties risks over the Replay program merchandise prizes inventory.

*Auditee Response:*

We concur. The Lottery has improved the segregation of duties further pursuant to this finding. The NH Lottery Replay prize inventory is now tracked and accounted for, independently, by two lottery employees. The lottery has strengthened the process of the year-end fiscal inventory and since inception in 2006; no fraudulent activity has been reported with the Replay prize inventory.

## **Observation No. 6: Expand Scope Of Policies And Procedures To Include Instances When Usual Practices Cannot Be Applied**

### *Observation:*

Lottery's policies and procedures do not consistently address exception situations, including instances when personnel are not available to perform regularly assigned tasks.

- An auditor-noted error in Lottery's calculation of the ticket cost for an instant ticket game identified a weakness in a Lottery review and approval control. In that instance, an employee who regularly performs a unit price calculation was absent and the calculation was performed by the usual reviewer, without an effective subsequent review and approval control. The error was later corrected in the Lottery's financial statements.

Transactions and calculations that are performed by personnel other than those usually responsible are at an increased risk for error. Policies and procedures should require those transactions and calculations be subjected to additional review and approval scrutiny.

### *Recommendation:*

Policies and procedures should include provisions to mitigate increased risk when usual policies and procedures are not applied, including situations when regularly assigned personnel are not available to perform a task.

### *Auditee Response:*

We concur. In regards to transactions and calculations performed by non-regular personnel noted above, when the reviewer calculated the unit cost of the game in question, the additional applicable licensing fee was not factored in as the reviewer was not aware that a fee would be forthcoming. The employee generally responsible for calculating the unit cost of tickets did not subsequently verify the cost entered in the Internal Gaming Management System by the reviewer upon the employee's return from an absence. This was a single incident but, as a result, all personnel who might enter ticket costs in the usual employee's absence are now required to send the employee an email confirming the action taken.

## **Observation No. 7: Correct Prize Reserve Account Reconciliation Procedure**

### *Observation:*

Unapproved changes to procedures for a reconciliation spreadsheet resulted in the controls intended from the spreadsheet to be unintentionally, significantly diminished.

During fiscal year 2012, a change to a Lottery Prize Reserve Account spreadsheet was made that unintentionally made a reconciliation control ineffective. Previously, the spreadsheet was used to recalculate additions and deductions to the Prize Reserve Accounts and compared to a reported

MUSL prize reserve account balance. Subsequent to the change, the calculated amounts were no longer effectively compared to the reported amounts. As a result, the intended control was ineffective as it would never identify a variance as the compared information is from the same source.

The change to the spreadsheet used to recalculate the additions and deductions to the prize reserve accounts was made without the preparer informing management of the change or recognizing the effect that it would have on the control value of the reconciliation.

*Recommendation:*

Lottery should review and revise as appropriate the spreadsheet used in the reconciliation of the Prize Reserve Account to ensure it is providing the intended control value.

Lottery should review with staff the importance of utilizing a proper change control process for the revision of control activities to ensure that changes are reviewed and approved prior to implementation to lessen the risk of faulty procedures leading to unintended results.

*Auditee Response:*

We concur. An employee mistakenly changed a formula. We have now password protected the spreadsheets so that formulas cannot be accidentally changed.

**Observation No. 8: Correct Ineffective Control For Claim Validation Or Document And Mitigate Increased Risk**

*Observation:*

An error in Lottery's prize validation process for one instant ticket game was recognized but not formally addressed during fiscal year 2012. While no errors in the prize payment were noted, there is no documentation to evidence the effect of the recognized error was fully considered.

A review of prize claims noted an incorrect prize amount printed on a validation slip for the instant ticket game "All Cash No Taxes!" The claimant won \$5,000 paid by check at Lottery headquarters. The validation slip for the claim generated from the gaming system should have shown an amount won of \$6,700, less 25% deducted for taxes (\$1,675), for a net amount due after taxes of \$5,025. Instead, the validation ticket showed a \$5,000 prize, which was manually crossed out and corrected to read \$6,700. Lottery reported the vendor's check register system pays claimants the correct prize amounts.

Lottery also reported it was aware of the incorrect amount printing on the validation slip for this particular game but did not request the vendor to correct the control, as the vendor had taken a considerable amount of time to fix a similar problem that had occurred in the past, and there were a limited number of remaining prizes that would potentially be affected by the control error.

Lottery did not document that management had reviewed and approved the decision not to request the vendor to correct the error in the prize validation process, nor that it had established a formal process to mitigate the associated increased risks.

*Recommendation:*

Management should establish effective controls to ensure tickets properly validate before being offered for sale. If errors are recognized in this or other system controls, those errors should normally be corrected. If Lottery management determines the correction of control errors is not necessary, that determination, along with alternative procedures to mitigate any weaknesses that result from those ineffective controls, should be fully documented.

*Auditee Response:*

We concur in part. The error was in one application of the Online Vendor's Internal Games Management System (IGMS). When the winning ticket was validated on the Lottery's internal Claims Terminal, the incorrect amount was printed on the validation slip by the terminal; however, the correct gross amount was shown in all relevant reports and the correct gross amount was printed on the W2G tax form and the check issued to the player was also correct.

The validation slip was for internal purposes only and had no effect on the outcome. The Lottery's Games Manager now has the ability to immediately correct any errors discovered in the messages printed on validation slips; these corrections are made in IGMS.

**Observation No. 9: Monitor Compliance With Filings Of Statements Of Financial Interests**

*Observation:*

Two of the four (50%) Lottery officials required to submit Statements of Financial Interests pursuant to RSA 15-A did not have Statements due January 20, 2012 on file as of the November 26, 2012 test date.

According to the Lottery, it notifies individuals subject to the filing requirement at the beginning of January, every year, of their need to file Statements.

*Recommendation:*

Even though it is an individual's responsibility to file, Lottery should implement procedures to monitor compliance with the requirement for Lottery officials to file Statements of Financial Interests. In addition to reminders sent to Lottery officials in advance of the required deadline, follow-up letters should be sent if Statements required by statute are not file with the Secretary of State on time.

*Auditee Response:*

We concur. Confirmation was made that statements for all four parties that were due on January 20, 2012 and January 18, 2013, have been submitted and copies are retained at the Lottery. To ensure that the policy will be in compliance each year, the Lottery will forward the annual e-mail request from the Department of Justice to the parties prior to the first Friday of January. Any person who has not submitted a filing by the second Friday of the month will be called by the administrative assistant.

**Observation No. 10: Obtain Evidence Of ICS Controls**

*Observation:*

Our fiscal year 2011 audit report included a number of control comments related to Lottery's information technology (IT) systems. Two comments specifically identified as weaknesses at the Lottery's Internal Control System (ICS) vendor remained unresolved during fiscal year 2012.

1. The ICS vendor was unable to provide evidence that the passwords used for internal default accounts within the ICS database, which support the ICS application, had been changed in accordance with best practices. System accounts that retain default account names and passwords offer opportunities for unauthorized and undetected access to applications and data by persons familiar with system defaults.
2. The ICS vendor was unable to provide evidence that an adequate segregation of duties exists between ICS system developers and production software migrators. An inadequate separation of duties increases the risk that software developers may be able to introduce unapproved or unauthorized software changes into production.

According to the Lottery, the ICS vendor was purchased by another company shortly after the end of fiscal year 2012 and the new vendor has agreed to implement the recommended changes in early 2013.

*Recommendation:*

Lottery should require the ICS vendor provide evidence of default password change within the ICS application and database or take steps to make changes to unchanged default passwords.

Lottery should require the ICS vendor to provide evidence of an appropriate segregation of duties between software development staff and those responsible for migrating ICS software into the Lottery production environment. Alternatively, the ICS vendor should provide documented evidence that mitigating controls have been put in place to reduce risk of inappropriate migration activity.

*Auditee Response:*

We concur. Ownership of the ICS vendor changed hands in September, 2012. The new ICS vendor has controls in place which includes having all releases require signed authorization from the Lottery before deployment. Separate personnel are also designated for client services and system support. They have provided a six month timeframe from that purchase (March, 2013) and has told the Lottery that they are still on track. The recommendation provided was forwarded to the new ICS vendor.

**Observation No. 11: Update And Augment Disaster Recovery Plan**

*Observation:*

Lottery's disaster recovery plan was not current during fiscal year 2012. Lottery's disaster recovery plan dates from 2008 and reflects the infrastructure, applications, and processes used with the prior third-party gaming service provider. Lottery began utilizing a new gaming system service provider during fiscal year 2011.

The lack of a current, comprehensive, and tested disaster recovery plan and complementary business continuity plan increases the risk that Lottery's gaming operations, including the balancing and reconciliation of gaming operations, could be seriously disrupted if an emergency event were to occur.

A similar comment was included in the fiscal year 2011 management letter.

*Recommendation:*

Lottery, in cooperation with the Department of Information Technology and its gaming system and internal control system vendors, should update the disaster recovery plan and augment it with an appropriate business continuity plan. It is further recommended that the plans be treated as living documents, subject to ongoing revision and annual testing.

*Auditee Response:*

We concur. The Lottery, in conjunction with the Department of Information Technology has created a Disaster Recovery Plan as of December 12, 2012. The overall objectives of the Plan are to protect Lottery Commission resources and employees, to safeguard this agency's vital records and to guarantee the continued availability of essential services. The role of this Plan is to document the pre-agreed decisions and to assign and implement a sufficient set of procedures for responding to a disaster that involves the commission's data center and its services. This plan will be updated on an as-needed basis. Relevant names and phone numbers will be reviewed quarterly to keep document current. Any changes to this document will be distributed with instructions about what is being added or replaced.



## **Observation No. 12: Review Offsite Access To Secured Information Systems**

### *Observation:*

Lottery does not periodically review authorities for Lottery and vendor employees' use of virtual private networks (VPN) to access Lottery information systems for continued business need. A VPN enables a user to access secured Lottery information technology systems from off-site locations by way of the Internet.

Lottery has not established policies and procedure for the maintenance of, and periodic review of the business need for, employee and vendor use of VPNs to access secured Lottery information systems. While the Department of Information Technology (DoIT) performs routine maintenance and review of the access for dormant/inactive accounts, DoIT relies on agency personnel, including the Lottery, for review and determination of continued need and appropriateness of VPN access.

While only a very limited number of Lottery and vendor employees have VPN access, without periodic reviews of users granted remote access privileges, terminated or reassigned staff could retain remote access to important networks, systems, and applications when it is no longer required or appropriate.

A similar comment was included in fiscal year 2011 management letter.

### *Recommendation:*

Lottery, in conjunction with DoIT, should conduct periodic reviews of users who have access to Lottery networks or systems. Lottery management should be provided with the results of those periodic access reviews for its review and approval.

### *Auditee Response:*

We concur. In addition to DoIT reviews of State employee VPN access on a 90-day cycle, the Lottery will take a more active role in reviewing VPN access and we will commence with quarterly reviews beginning in January 2013. We believe that a quarterly review is a manageable task and would not result in the need for additional staffing support. The Lottery will also continue with the current policy that all requests for VPN access to the production gaming system must first be authorized in writing between Lottery management and vendor management. The subsequent access is captured by an independent computer application that electronically alerts Lottery Security to the activity and acts a verifier that such access has been successfully achieved.

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## APPENDIX

### Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 17, 2012, of the observations contained in the New Hampshire Lottery Commission Management Letter for the fiscal year ended June 30, 2011. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website: <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

	<u>Status</u>	
<b><i>Internal Control Comments</i></b>		
<b><i>Significant Deficiencies</i></b>		
1. Controls Over Game Draws Should Be Improved ( <i>See Current Observation No. 2</i> )	● ● ○	
2. Controls Over Preparation Of Financial Statements Should Be Improved	● ● ●	
3. Compliance With Financial Control Activities Should Be Improved	● ● ●	
4. Policies And Procedures For Posting Ticket Cost Data Should Be Established	● ● ○	
5. Risk Assessment Should Be Performed ( <i>See Current Observation No. 1</i> )	● ● ○	
6. Controls Over Replay Program Should Be Improved ( <i>See Current Observation No. 4</i> )	● ● ○	
7. Segregation Of Duties Should Be Improved Over Merchandise Prizes-Replay Program ( <i>See Current Observation No. 5</i> )	● ● ○	
8. Controls Over Keycards Should Be Improved	● ● ●	
9. Vendor Compliance With Insurance Requirements Should Be Monitored And Enforced	● ● ●	
<b><i>State Compliance Comment</i></b>		
10. Prize Claims Should Be In Compliance With Rules	● ● ○	
<b><i>Review Of Lottery Information Technology System General Controls (See Next Page)</i></b>		

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	4
Substantially Resolved	●	●	○	6
Partially Resolved	●	○	○	0
Unresolved	○	○	○	0

*Review Of Lottery Information Technology System General Controls*

Status

Internal Control Comments - Information Technology - Significant Deficiencies

**I. GENERAL COMMENTS**

- A. Software Change Control Failure ● ● ●
- B. Independent Access To Vendor Source Data ● ● ●

**II. GOVERNANCE**

- A. Information Security Policies And Procedures ● ● ●
- B. 2011 Multi-State Lottery (MUSL) Audit - Comments ● ● ○

**III. ACCESS TO PROGRAMS AND DATA**

**A. Logical Access**

- 1) Internal Control System (ICS System) Password Parameters ● ● ●
- 2) Default Internal Control System (ICS System) Account Password Change ○ ○ ○  
(See Current Observation No. 10)

**B. System And Application Access Management And Monitoring**

- 1) Back Office System (BOS) Access Assignment ● ● ○
- 2) Access Termination ● ● ●
- 3) Periodic Review Of User Application Access ● ● ●
- 4) Virtual Private Network (VPN) Access (See Current Observation No. 12) ● ○ ○

**C. Change Management**

- 1) Change Management Policy ● ● ○
- 2) Bi-Monthly Meetings ● ● ●
- 3) Change Management Tracking ● ● ●
- 4) Internal Control System (ICS System) Vendor Segregation of Duties (See Current Observation No. 10) ○ ○ ○

**D. Computer Operations**

- 1) Disaster Recovery And Business Continuity Plans (See Current Observation No. 11) ● ○ ○
- 2) Service Level Agreement (SLA) Incident And Service Call Agreement And Compliance ● ● ●
- 3) Service Call Statistics Source ● ● ●

Comments For Management Information

**IV. PROCESS IMPROVEMENT OPPORTUNITIES**

**A. Vendor Independence**

- 1) Internal Control System (ICS System) Vendor Independence ● ● ●

**B. Physical Security**

- 1) Relocation Of Internal Control System (ICS System) Server ● ● ●

Status Key

	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	12
Substantially Resolved	●	●	○	3
Partially Resolved	●	○	○	2
Unresolved	○	○	○	2