

LBA Financial Audit Report Summary:

New Hampshire Sweepstakes Commission Management Letter For the Year Ended June 30, 2000

The New Hampshire Sweepstakes Commission (the Commission) was established in 1964 by Chapter 284:21-a of the New Hampshire Revised Statutes Annotated (RSA) and became the first modern state-run lottery program to benefit public education. The Commission has three members appointed by the Governor and an executive director who is appointed by the Commission. The Commission operates both instant and on-line games for the purpose of funding state aid to education. The Commission is a member of two joint lottery ventures, the Tri-State Lotto Commission and the Multi-State Lottery Association, and offers the Tri-State Megabucks and Powerball games among others. The Commission also licenses and taxes 1) charitable organizations which hold Bingo games and 2) the manufacture, distribution and retail sales of Lucky 7 tickets.

During fiscal year 2000, the Commission had total sales of \$190.9 million, a 4% decrease from 1999. The majority of sales, as in past years, continued to be from instant "scratch" tickets, accounting for 66% of fiscal year 2000 sales. Net profit contributed toward public education totaled \$61.5 million, exceeding by \$5.5 million the Commission's estimated share of state aid to education.

We audited the general purpose financial statements of the Commission as of and for the years ended June 30, 2000 and 1999 and issued our unqualified report thereon dated December 1, 2000. A copy of the Commission's comprehensive annual financial report may be obtained from the New Hampshire Sweepstakes Commission, P.O. Box 1208, Concord, New Hampshire, 03301-1208

This management letter, dated December 1, 2000, a byproduct of the fiscal year 2000 audit of the Commission, describes certain internal control, compliance, and other management matters. These comments are summarized below.

Constructive Service Comments

Internal Control Comments Reportable Conditions

- Expenses Charged To The Tri-State Operations May Not Receive The Oversight And Control Reviews Appropriate For A State-Run Organization
- Controls Over Sweepstakes Prize Payment Disbursement Process Should Be Improved

- Proper Business Relationships Between Employees And Vendors Should Be Safeguarded
- Sales Office Accountability Should Be Improved
- Reconciliation Process For Cash Accounts Should Be Improved
- Delinquent Agent Accounts Should Be Monitored More Closely
- Responsibilities For Adjustments To The Accounting Records Should Be Segregated
- Control Over Returned Prize Payment Checks Should Be Enhanced
- Checks Should Be Restrictively Endorsed Upon Receipt
- The Authority For The Payment Of Incentives To Agents Who Cash Pick 3/Pick 4 Winning Tickets Should Be Clarified
- Bingo And Lucky 7 Reporting Compliance Should Be Reviewed
- Responsibilities For Collecting Revenues From Delinquent Agents And Waiving Fees For Bounced Electronic Fund Transfers Should Be Segregated
- Provisions For Unclaimed MUSL Game Prizes Should Be Made In Determining Unclaimed Prize Liability

Compliance Comment

- Current Information Technology Plan Should Be Filed

Auditor's Report On Management Issues

Management Issues Comment

- Sweepstakes Must Gain A Better Understanding Of Its Participation In Its Joint Lottery Ventures
- Employment Status Of Sweepstakes Employees Hired By The Tri-State Lotto Should Be Reviewed
- Communication And Coordination Of Efforts With The Department Of Administrative Services, Bureau Of Financial Reporting Should Be Improved
- The Propriety Of Paying Bonuses To State Liquor Store Employees Should Be Reviewed