

**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION**

**MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014 and have issued our report thereon dated December 29, 2014.

This management letter, a byproduct of the audit of the New Hampshire Lottery Commission for the fiscal year ended June 30, 2014, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix, on page 7 of the management letter, provides a summary of the status of observations presented in the fiscal year 2013 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 2013 CAFR, and it is believed that the 2014 CAFR also conforms to the certificate of achievement program requirements. A copy of the Lottery's 2014 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_2014_CAFR.pdf


Office Of Legislative Budget Assistant

December 29, 2014

**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION
2014 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>

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the 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, the financial statements of the New Hampshire Lottery Commission (Lottery) which comprise the Statement of Net Position as of June 30, 2014 and the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies. We consider the deficiencies described in Observations No. 1 through No. 3 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lottery'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*.

Lottery Commission's Responses To Findings

The Lottery's responses to the findings identified in our audit are included with each reported finding. The Lottery's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Office Of Legislative Budget Assistant

December 29, 2014

Internal Control Comments
Significant Deficiencies

Observation No. 1: Review Financial Accounting And Reporting Policies And Procedures And Supplement Where Appropriate

Observation:

Lottery's currently documented financial policies and procedures do not appear sufficiently comprehensive to efficiently support and ensure the secure continuation of the Lottery's financial operations and controls in the event of turnover in the Lottery's key financial employee positions.

Lottery has enjoyed relative stability in its financial accounting and reporting staff. Lottery financial staff are experienced and practiced in the timely and accurate preparation of annual financial statements and comprehensive annual financial reports that consistently receive certificates of achievement for complete financial reporting. A significant contributor to that success has been the efforts of the Lottery's long-serving chief financial officer and other key employees. Looking forward, Lottery needs to ensure that it has well-designed, comprehensive, and documented policies and procedures in place, including well-documented controls that institutionalize the knowledge and practice of Lottery's experienced employees, and minimize the risk to secured financial operations in the event of turnover in the Lottery's key financial employee positions.

Recommendation:

Lottery should review its documented financial accounting and reporting policies, procedures, and controls, and supplement them where appropriate, to ensure the policies, procedures, and controls are accurate, complete, and sufficiently detailed to both support the Lottery's current, experienced financial accounting and reporting team and provide sufficient guidance and direction to any new employees that may take over those functions in the future.

Auditee Response:

We concur. Lottery has written accounting policies and procedures. They will be reviewed to verify they are current and will be updated as needed. The Lottery will continue to cross train the accounting staff as part of our secession planning.

Observation No. 2: Review Payments For Errors

Observation:

Auditors identified one instance during testing where the Lottery overpaid a sales incentive to a ticket retailer during fiscal year 2014.

Pursuant to RSA 284:21-s, Incentive Awards for Ticket Sellers, “The lottery commission is authorized to pay cash incentives, at a rate established by the commission but not to exceed \$30,000 for a jackpot winning ticket, . . . as an inducement to servants and agents authorized to sell tickets pursuant to RSA 284:21-h, II(d).”

The Lottery’s Retailer Incentive Policy for Powerball sales provides for the payments of incentives of:

- 1% of jackpot prize per winning ticket capped at \$30,000
- 1% of 2nd tier prize including Power Play up to a maximum of \$10,000
- 1% of 3rd tier prize including Power Play up to a maximum of \$500

Auditors noted that one incentive payment in a random sample of five payments tested was overpaid by \$10,000, as the Lottery did not limit the payment to the maximum \$10,000 for a 2nd tier Powerball prize. Auditors subsequently reviewed all fiscal year 2014 incentive payments for amounts in excess of limits and did not note any similar errors.

Lottery’s control processes, which included multiple reviews and approvals of the payment, did not prevent or detect and correct the overpayment error prior to issuance of the payment. While the Lottery’s control processes were followed, neither the preparer of the payment nor the two Lottery employees who were subsequently involved in processing the transaction identified that the payment exceeded the payment maximum for a 2nd tier prize. Upon notice of the error by the auditors, the Lottery recovered the overpayment.

Recommendation:

Lottery should review the circumstances that allowed the erroneous payment to be issued without detection and correction. Lottery should ensure that employees involved in control activities have appropriate training and resources to accurately perform those activities. Lottery should consider whether including prompts and reminders of calculation limits on incentive payment forms would reduce the risk of excess payments.

Auditee Response:

We concur. Lottery has implemented a process requiring management agreement for an incentive amount recorded in the letter to the retailer. The accounting manager will initiate the request and a second manager will provide authorization of the amount before the payment will be made. Lottery has also removed the automatic calculation from the worksheet which was determined to be the cause of the error.

Observation No. 3: Improve Monitoring Of Control Activity

Observation:

During fiscal year 2014, Lottery did not monitor the control intended to ensure Lottery and Multi-State Lottery (MUSL) employees, who are ineligible to play MUSL games, do not receive MUSL game prize payments.

Lottery and MUSL employees, and their families, are ineligible to play Lottery games and claim prizes. As a control against improper payment of a prize, Lottery staff compare prize claim forms to a list of ineligible players and evidence their application of the control by stamping the reviewed claim forms with a “Non-MUSL Employee” stamp.

- Auditors observed a sample of prize claim forms for evidence the control was in place during fiscal year 2014. Three out of five MUSL games claim forms reviewed, including a \$1 million Powerball claim and a \$1 million Mega Millions claim, were not stamped or otherwise evidenced as having been checked for claimant ineligibility prior to the payments being made. Lottery staff reported they reviewed the two \$1 million claims identified above, but neglected to stamp the claims form.

In addition to not consistently documenting the application of the control, based on discussions with Lottery employees, it was not clear the policies regarding the application of the control were adequately understood.

- Lottery management reported that it believed staff checked all MUSL game prize claims greater than \$599 for ineligible players. Lottery staff reported they understood the control required them to check MUSL game prize claims that were \$5,000 or more for ineligible players.

Recommendation:

Lottery should review its documented policies and procedures for prize claim payments to ensure they are complete and sufficiently detailed and that all relevant staff are aware of and trained in their operation.

Lottery should improve its control monitoring to ensure that Lottery staff understand and perform prize claim control activities as management intends.

Auditee Response:

We concur. The Lottery has reviewed all procedures with the claims staff and will implement a semi-annual review of each process. This will assist with ensuring consistent procedures are followed by all employees. The next staff review is scheduled for June 25, 2015.

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APPENDIX

Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 29, 2014, of the observations contained in the New Hampshire Lottery Commission Management Letter for the fiscal year ended June 30, 2013. 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>		
<i>Internal Control Comments</i>			
<i>Significant Deficiencies</i>			
1. Document All Critical Game Procedures	●	●	●
2. Strengthen Controls Over Game Draw Systems And Processes	●	○	○
3. Improve Controls Over Instant Ticket Reconstruction Requests	●	●	●
4. Submit Certifications Required By MUSL Rules	●	●	●
5. Improve Controls Over Replay Program	●	○	○
<i>State Compliance Comment</i>			
6. Request Legal Opinion For Use Of Lottery Money To Fund The Gaming Regulatory Oversight Authority	○	○	○

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	3
Substantially Resolved	●	●	○	0
Partially Resolved	●	○	○	2
Unresolved	○	○	○	1