

**STATE OF NEW HAMPSHIRE  
LOTTERY COMMISSION**

**MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



*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, 2015 and have issued our report thereon dated December 31, 2015.

This management letter, a byproduct of the audit of the New Hampshire Lottery Commission for the fiscal year ended June 30, 2015, 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 9 of the management letter, provides a summary of the status of observations presented in the fiscal year 2014 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 2014 CAFR, and it is believed that the 2015 CAFR also conforms to the certificate of achievement program requirements. A copy of the Lottery's 2015 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.nhlottery.com/Files/PDFs/Lottery-CAFR-FY15.aspx>

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

December 31, 2015

**STATE OF NEW HAMPSHIRE  
LOTTERY COMMISSION  
2015 MANAGEMENT LETTER**

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\* Comment suggests 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, 2015 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 31, 2015. Our report includes an emphasis-of-matter paragraph noting the Lottery's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting For Pensions* as amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the fiscal year ended June 30, 2015.

**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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in Observation No. 4.

### **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 31, 2015

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

**Observation No. 1: Resolve Recognized Weaknesses In Security Systems**

*Observation:*

The Lottery has not resolved an ongoing problem with an internal security system allowing uncontrolled physical access to what it considers to be a restricted area. An effective control environment requires that management timely and effectively address and resolve weaknesses in important security systems.

The Lottery reported a door securing access to a restricted area fails randomly and has not functioned properly for several years despite having the vendor repeatedly attempt to repair the lock.

According to the Lottery, it has never identified any security incidents that resulted from the faulty system. Lottery reports it is not overly concerned as the public does not have access to the restricted area of the Lottery facility and during off-business hours a secondary locked area secures access to stored assets.

*Recommendation:*

The Lottery should resolve the recognized weakness in its security system. Intended physical access restrictions should be enforced by effective systems that reliably control access to secure areas of the facility and assets. Defective doors/locking mechanisms should be repaired or replaced. Physical keys and locks to secured areas should be safeguarded and changed periodically.

*Auditee Response:*

We concur.

We have an undiagnosed electronic glitch occasionally that renders the internal door unsecured during normal business hours. We agree that the door is not accessible to unauthorized persons, such as the public, and that there have been no security incidents associated with its intermittent condition. The Lottery has taken the initiative to retain a security vendor to develop and install a technological solution that, according to security experts, will permanently resolve the issue and installation will soon proceed. Management has proactively taken additional steps to improve security of the restricted area; employees that work within the restricted area now are utilizing the gate fencing to contain the perimeter during short intervals of absence such as breaks or lunch periods. Additionally, the access door is subject to security video monitoring by Lottery Security and the restricted area is protected by an independent intrusion detection system which is continuously monitored by an industry certified alarm monitoring company with direct communication links to local law enforcement.

## **Observation No. 2: Establish Policies And Procedures For Tracking Prize Reimbursements**

### *Observation:*

Two wire transfers totaling \$200,000 remained unrecorded in the Lottery's cash account during the period April 28 to September 1, 2015; due to Lottery being unaware the transfers had occurred. The four month delay in recording the funds to the Lottery's cash account resulted from Lottery not tracking the outstanding reimbursement request, the joint venture not effectively notifying Lottery upon the issuance of the wire transfers, and the State Treasury not initially recognizing Lottery as the intended recipient of the wired funds.

On April 28, 2015, Tri-State, a Lottery joint venture, wired \$200,000 to a New Hampshire State Treasury bank account as reimbursement for two Tri-State game prizes paid to winners. While the State Treasury recognized the receipt of the transfers, reportedly due to lack of available information, it did not initially identify the responsible receiving agency. The State Treasury carried the amounts as reconciling items on its accounts until it determined Lottery was the proper receiving agency on September 1, 2015. It was not until the September 2015 notice from the Treasury that Lottery became aware that a reimbursement was due and that it had been received on April 28, 2015. Upon that notice, Lottery recorded the transaction in NHFirst, the State-wide accounting system.

### *Recommendation:*

The Lottery should establish policies and procedures for tracking prize reimbursements. The Lottery should identify prizes that are reimbursable from its joint ventures at the time of Lottery's payment to prize winners, and track the receipt of the reimbursements.

### *Auditee Response:*

We concur.

In October of 2015, the Lottery began recording reimbursable prizes on the Balance Sheet. The Lottery also switched the bank account of incoming wires to a Lottery specific bank account which is reconciled daily by Lottery personnel.

### *State Treasury Response:*

State Treasury concurs.

On a daily basis, the State Treasury processes hundreds of electronic receipts and disbursements. As noted in the observation, any bank account transactions which are not recorded in the appropriate general ledger cash account in NHFirst, whether by Treasury or a particular State agency, are documented as reconciling items recorded by the bank (but not recorded in the general ledger) and researched by Treasury staff for proper resolution. As it relates to this specific observation:

- Treasury Reconciliation staff identified in early June 2015 that the transactions in question related to Lottery Commission operations and, based on normal procedures followed, would have alerted its contacts at the Lottery Commission, requesting that the accounting entries be recorded. Most of these communications with State agencies are conducted via e-mail and telephonically, however, due to the subsequent departure of the Treasury staff member working this particular cash account, Treasury has no written or electronic record of having contacted the Lottery Commission regarding resolution of the reconciling item prior to September 1, 2015. Due to the substantial volume of reconciling items carried by Treasury and the subsequent departure of the Treasury staff member tracking this item, follow-up communications with the Lottery Commission were not made, and the cash account document was not recorded in NHFirst, until September 1, 2015. However the transaction was reported in the bank reconciliation throughout this time.
- Treasury and the Lottery Commission have recently implemented a new deposit procedure which utilizes a dedicated bank account whose transaction activity can be reviewed by Lottery Commission staff on a daily basis, providing more timely notification of the receipt of funds. The new process is part of an ongoing initiative to improve cash management activities of the State. The transactions cited in the observation were wired to a high-volume receiving account administered by Treasury and inaccessible to Lottery Commission staff, requiring periodic communications between Treasury and Lottery for the resolution of reconciling items.

### **Observation No. 3: Lottery Funds On Deposit With Treasury Should Be Credited With Interest**

#### *Observation:*

Interest earned on Lottery funds on deposit with the State Treasury does not appear to correlate to the average amount on deposit.

RSA 284:21-j, states, “I. The state treasurer shall credit all moneys received from the lottery commission..., and interest received on such moneys, to a special fund....” During fiscal year 2015, the State Treasury reported to the Lottery that the Lottery Fund earned \$300 in interest. Upon review, the interest earned represented interest earnings on a \$269,000 money market account. With the exception of the interest earnings posted to the account, the Treasury reports the balance in the account has remained unchanged since at least July 1, 2009. Neither the Lottery nor the State Treasury could provide a basis for the balance in the money market account or why the Lottery Fund was not credited interest earnings on the average \$5.8 million month end Lottery cash balance held by the State Treasurer.

#### *Recommendation:*

The Lottery should request State Treasury to credit the Lottery Fund with interest earned on the Lottery’s balances on deposit at the State Treasury. While the State Treasury generally pools the

State's cash, that pooling does not prevent interest from being credited to special funds that warrant interest earnings.

*Auditee Response:*

We concur.

On January 26, 2016, the Lottery CFO and Accountant III met with representatives of the State Treasury regarding Investments accounts. As a result of the meeting, Lottery has begun tracking GL Cash Balances from the Daily Trial Balance to come up with Lottery's Daily Cash Balance.

*State Treasury Response:*

State Treasury concurs.

There are numerous dedicated funds that are entitled to interest earnings based on their enabling legislation. However, prior to fiscal year 2015, the interest rate environment did not allow Treasury to generate interest earnings in excess of the amount required to pay for the State's cost of institutional banking services via "compensating balances" maintained at the banks. Beginning with fiscal year 2015, the Treasury was able to deploy pooled cash in a manner that generated net interest earnings in excess of the cost of banking. Treasury is now finalizing a methodology to allocate net interest earnings for fiscal year 2015 to those funds entitled to such earnings and will include the Lottery Fund in that allocation. Going forward, this allocation will be performed annually for the preceding fiscal year.

With regard to the money market account noted in the observation, which was established several years ago on behalf of the Lottery Commission as a separate custodial account, this account has recently been closed and the balance was merged into pooled cash so that the funds can be aggregated into the net interest earnings allocation described above.

## State Compliance Comment

### **Observation No. 4: Comply With Statute Or Request Appropriate Amendment**

#### *Observation:*

The Lottery is not in compliance with RSA 284:21-s, as it does not limit the 10 percent commission paid to its retailers on sales that have exceeded the retailer's previous fiscal year's sales to \$500, as cited in the statute.

RSA 284:21-s states, "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, or not to exceed \$500 for each incidence of meeting or exceeding lottery commission established sales goals, as an inducement to servants and agents authorized to sell tickets pursuant to RSA 284:21-h, II(d)."

RSA 284:21-h, II states, "Tickets for such pure lotteries:...(d) May be sold by or for the lottery commission at designated locations...by persons, whether natural, associate, or corporate, authorized to sell such tickets on a 5 percent commission basis for services rendered. The commission shall pay a 10 percent commission on those sales made during a fiscal year which exceed the sales made during the previous fiscal year."

The Lottery reports that, in its understanding, RSA 284:21-h, II was not intended to be limited by RSA 284:21-s.

#### *Recommendation:*

The Lottery should comply with statute. If the Lottery determines that RSA 284:21-s is not in the best interests of the Lottery and the State, the Lottery should seek to have the statute appropriately amended.

#### *Auditee Response:*

We concur.

The Lottery is in the process of having the statute appropriately amended.

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## APPENDIX

### Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 31, 2015, of the observations contained in the New Hampshire Lottery Commission Management Letter for the fiscal year ended June 30, 2014. 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/pdf/Lottery\\_2014\\_Management\\_Letter.pdf](http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Lottery_2014_Management_Letter.pdf)

#### Status

#### *Internal Control Comments*

#### *Significant Deficiencies*

- |    |  |   |   |   |
|----|--|---|---|---|
| 1. | Review Financial Accounting And Reporting Policies And Procedures And Supplement Where Appropriate | ● | ● | ○ |
| 2. | Review Payments For Errors   | ● | ● | ● |
| 3. | Improve Monitoring Of Control Activity   | ● | ● | ○ |

#### Status Key

#### Count

Fully Resolved	●	●	●	1
Substantially Resolved	●	●	○	2
Partially Resolved	●	○	○	0
Unresolved	○	○	○	0

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