

LBA Financial Audit Report Summary:

New Hampshire Lottery Commission, Management Letter for the Fiscal Year Ended June 30, 2010

The New Hampshire Lottery Commission was established by the chapter laws of 1963 and became the first modern state-run lottery program. The Lottery's primary purpose has always been to raise revenue for the benefit of public education. The financial activities of the Lottery, as a department of the State of New Hampshire, are reported as an enterprise fund in the State's Comprehensive Annual Financial Report as well as in the Lottery's Comprehensive Annual Financial Report.

The Lottery operates both instant and on-line games for the purpose of funding state aid to education. As a member of two joint lottery ventures, the Tri-State Lotto Commission and the Multi-State Lottery Association, the Lottery offers a variety of games, including the Megabucks, Powerball, and Mega Millions games.

During fiscal year 2010, the Lottery's operating revenues were \$234 million, a 2.4% decrease from the prior year; gross profit margin was 31.7%, approximately the same as experienced during the prior year; and transfers to the State's Education Trust Fund were \$66.2 million, a decrease of 2.8% from the prior fiscal year.

We audited the financial statements of the Lottery as of and for the year ended June 30, 2010 and issued our unqualified report thereon dated December 21, 2010. A copy of the Lottery's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010 may be obtained from the New Hampshire Lottery Commission, P.O. Box 1208, Concord, New Hampshire, 03302-1208, or accessed online at <http://www.gencourt.state.nh.us/lba/audit.html>.

This management letter, a byproduct of the fiscal year 2010 audit of the Lottery, contains an auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The following is a list of the comments in the report.

Internal Control Comments

Material Weakness

- Risk Assessment Should Be Performed

Significant Deficiencies

- Controls Over Lottery's Assets Should Be Strengthened
- Compliance With Financial Control Activities Should Be Improved
- Replay Program Should Be Fully Documented
- Appropriateness Of Instant Ticket Revenue Collection Policies And Procedures Should Be Reviewed

- Only Advertising Costs Should Be Charged To Advertising Accounts
- Policies And Procedures For Accessing The Draw Room Should Be Expanded
- Access Controls Should Be Improved

State Compliance Comments

- Tax Status Of Tri-State Lotto Prizes Should Be Determined
- Prize Payment Rules Should Be Followed
- Prize Claims Should Be In Compliance With Rules