

**STATE OF NEW HAMPSHIRE  
SWEEPSTAKES COMMISSION**

**MANAGEMENT LETTER  
FOR THE YEAR ENDED  
JUNE 30, 2000**

This report can be accessed in its entirety online at [www.gencourt.state.nh.us/lba](http://www.gencourt.state.nh.us/lba).

*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Sweepstakes Commission, a department of the State of New Hampshire, as of and for the year ended June 30, 2000 and have issued our report thereon dated December 1, 2000.

This management letter, a byproduct of the audit of the New Hampshire Sweepstakes Commission for the year ended June 30, 2000, contains an auditor's report on compliance and on internal control over financial reporting, an auditor's report on management issues, and related observations and recommendations. The appendix to this management letter provides a summary of the status of observations reported in our management letter presented as a byproduct of the 1999 audit of the Sweepstakes Commission.

Sweepstakes 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. Sweepstakes received GFOA certification for its 1999 CAFR, and it is believed that this CAFR will also conform to the certificate of achievement program requirements. A copy of the New Hampshire Sweepstakes Commission's 2000 CAFR can be obtained from the New Hampshire Sweepstakes Commission, 14 Integra Drive, Concord, NH 03301.

*Office Of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

December 1, 2000

**STATE OF NEW HAMPSHIRE  
SWEEPSTAKES COMMISSION**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>Letter Of Transmittal</b> .....	i
<b>Auditor’s Report On Compliance And On Internal Control Over Financial Reporting</b> .....	1
<b><i>Internal Control Comments</i></b>	
<b><i>Reportable Conditions</i></b>	
1. Expenses Charged To The Tri-State Operations May Not Receive The Oversight And Control Reviews Appropriate For A State-Run Organization .....	3
2. Controls Over Sweepstakes Prize Payment Disbursement Process Should Be Improved.....	6
3. Proper Business Relationships Between Employees And Vendors Should Be Safeguarded .....	6
4. Sales Office Accountability Should Be Improved .....	8
5. Reconciliation Process For Cash Accounts Should Be Improved .....	9
6. Delinquent Agent Accounts Should Be Monitored More Closely.....	10
7. Responsibilities For Adjustments To The Accounting Records Should Be Segregated .....	11
8. Control Over Returned Prize Payment Checks Should Be Enhanced .....	12
9. Checks Should Be Restrictively Endorsed Upon Receipt.....	12
10. The Authority For The Payment Of Incentives To Agents Who Cash Pick 3/Pick 4 Winning Tickets Should Be Clarified .....	13
11. Bingo And Lucky 7 Reporting Compliance Should Be Reviewed.....	13
12. Responsibilities For Collecting Revenues From Delinquent Agents And Waiving Fees For Bounced Electronic Fund Transfers Should Be Segregated.....	14
13. Provisions For Unclaimed MUSL Game Prizes Should Be Made In Determining Unclaimed Prize Liability .....	15
<b><i>Compliance Comment</i></b>	
14. Current Information Technology Plan Should Be Filed.....	17
<b>Auditor’s Report On Management Issues</b> .....	18
<b><i>Management Issues Comments</i></b>	
15. Sweepstakes Must Gain A Better Understanding Of Its Participation In Its Joint Lottery Ventures.....	19
16. Employment Status Of Sweepstakes Employees Hired By The Tri-State Lotto Should Be Reviewed .....	21
17. Communication And Coordination Of Efforts With The Department Of Administrative Services, Bureau Of Financial Reporting Should Be Improved.....	22
18. The Propriety Of Paying Bonuses To State Liquor Store Employees Should Be Reviewed.....	24
<b>Appendix - Current Status Of Prior Audit Findings</b> .....	25

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

*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Sweepstakes Commission, a department of the State of New Hampshire, as of and for the year ended June 30, 2000, and have issued our report thereon dated December 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the New Hampshire Sweepstakes Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that is described in observation No. 14 of this report.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the New Hampshire Sweepstakes Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sweepstakes' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in observations No. 1 through No. 13 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions referred to above is a material weakness.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the New Hampshire Sweepstakes Commission and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

*Office Of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

December 1, 2000

**Internal Control Comments**  
**Reportable Conditions**

**Observation No. 1 - Expenses Charged To The Tri-State Operations May Not Receive The Oversight And Control Reviews Appropriate For A State-Run Organization**

*Observation:*

Sweepstakes-directed expenses charged to the Tri-State joint venture operations are not included in Sweepstakes' State-budgeted operations or State expenditure control processes even though these expenses would appear to benefit from these processes.

The Sweepstakes Commission does not include any Tri-State related expenses in its operating budget submitted to the State's budget process. Sweepstakes' expenses charged to its Tri-State joint venture operations are paid by the Tri-State's business office in Vermont. The expenses are not subject to State expenditure control processes such as vendor selection by the Bureau of Purchase and Property, vendor payment and payroll auditor reviews, or the State's Treasury disbursement control processes.

RSA 287-F:3, in discussing Sweepstakes' Tri-State operations, provides that "[f]ifty percent of the gross sales from each state shall be aggregated in a common prize pool, and operating costs shall be charged proportionally to the party states. The remaining revenues generated within each state shall remain in that particular state." The statutes, Sweepstakes, and Tri-State Commission rules do not discuss the types of expenses that should be charged directly against Tri-State operations and what expenses should be charged to State budgeted appropriations. Historically, certain operating expenses, such as Tri-State business office, audit, bank investment expenses, etc. are charged proportionally to the member states. In addition, member states have also charged other directed expenses to Tri-State operations. The Tri-State business office makes payment on these expenses and charges the expenses against the individual states' Tri-State game income. These expenses are not necessarily coordinated with other member states and the amounts, vendors, etc. are determined by the individual member states' commissions with only perfunctory review by the Tri-State Commission and business office. For example:

1. During fiscal year 2000, the Sweepstakes Commission charged \$1 million or 3.7% of its total \$27.3 million Tri-State games sales to its Tri-State advertising account. During the same period, the Sweepstakes Commission charged \$1.7 million or 1% of its total \$164 million New Hampshire and Multi-State Lottery Association (MUSL) games sales to its New Hampshire and MUSL games advertising accounts. The MUSL and New Hampshire games advertising contract was bid and awarded under the State's control system, including approval of the contract by the Governor and Council. Sweepstakes' Tri-State games advertising contract was also given to the same advertising vendor and, while the Tri-State Commission approved this contract, the Tri-State approval of member-state contracts appears to be automatic and not a significant control process.

**Observation No. 1 - Expenses Charged To The Tri-State Operations May Not Receive The Oversight And Control Reviews Appropriate For A State-Run Organization (Continued)**

*Observation (Continued):*

Sweepstakes' Tri-State advertising expenditures charged to the contract are subject to only a limited review by the Vermont Lottery business office that processes the payment from Sweepstakes' funds held by Tri-State. The following are examples of advertising expenditures that may not have received adequate consideration and review.

- During fiscal year 2000, the Sweepstakes Commission purchased \$9,450 of fleece vests as part of a Tri-State Lotto promotional campaign. The cost for these vests was charged to Sweepstakes' Tri-State advertising expense line. A number of these vests were given to Sweepstakes employees in the Concord business office as well as to retailers. It is not clear how the purchase of the vests given to the Concord business office employees can be regarded as a valid Tri-State promotional expense.
  - An error made by the Tri-State business office charged \$1,500 of expenses to the New Hampshire account instead of the Vermont account. Because only limited reconciliation and expenditure review procedures are performed by the Sweepstakes Commission on its Tri-State expenditures, the Sweepstakes Commission did not detect and correct this error until it was brought to their attention during the audit.
2. Expenses that may have more appropriately been classified as Sweepstakes expenses, subject to State budget and control processes, may have been shifted to Tri-State expenses and avoided budget and control oversight. For example:
- Two Sweepstakes commissioners and three Sweepstakes employees traveled to a national lottery conference during the fall of 2000 at a cost of \$10,000. Sweepstakes charged the entire cost of this travel to its Tri-State travel account even though it is apparent that the majority of the value of this trip was not directly related to Sweepstakes' Tri-State operations. The travel expenses were submitted to the Tri-State business office in Vermont for payment and were not subject to State review and controls. One Tri-State partner (Vermont) also sent representative(s) to the conference and the other Tri-State partner (Maine) chose not to be represented. The cost of this travel is net against each respective Tri-State partners' Lotto income and is not "proportionally charged to the party member states" as provided for in RSA 287-F:3.

Because these expenses currently charged to the Tri-State expense accounts are directed by and are under the control of the Sweepstakes Commission, receive only token budget approval review and expenditure control from the Tri-State Lotto Commission, and are foreseeable in the normal budget forecasting period, it appears that these types of non-proportional Tri-State expenses could benefit from the State's budget oversight and expenditure control processes.



**Observation No. 1 - Expenses Charged To The Tri-State Operations May Not Receive The Oversight And Control Reviews Appropriate For A State-Run Organization (Continued)**

*Recommendation:*

Sweepstakes' Tri-State expenses and expenditures should be subject to appropriate levels of oversight and control to ensure that State funds are expended in a controlled manner consistent with management's plans.

1. The Sweepstakes Commission should submit anticipated "non-proportional" Tri-State expenses to the State's budget and expenditure control processes.
  - The Sweepstakes Commission should only expend State resources for purposes that directly benefit the purposes of its organization. Additionally, promotional items should not be used to benefit Commission employees.
  - The Sweepstakes Commission should perform sufficient reconciliation and review procedures on its Tri-State expenditures to ensure that all charges are authorized, appropriate, and accurate.
2. All expenses other than Tri-State operating expenses charged proportionally to the member states, as provided by RSA 287-F:3, should be paid from State-appropriated accounts.

*Auditee Response:*

We concur in part. The Tri-State Compact (RSA287-F) became law in 1985 and costs related to the Tri-State Lotto Commission's games have been charged to Tri-State.

We will perform additional reconciliations of Tri-State expenditures. The fleece jackets were provided to lottery employees as a way to advertise the New Hampshire Lottery. Our field staff visit approximately 120 retailers a day and they are seen by numerous players and non players during those visits. It is important to any marketing plan to have your product and company name visible to as many people and as often as possible.

During 1995 New Hampshire introduced Powerball and allocated less Tri-State advertising resources to Megabucks and more state advertising to Powerball. In order to provide a more cost effective method of charging advertising expenses to each member of Tri-State, the Tri-State commission reviewed and approved individual advertising amounts for each state's needs. If this assessment had not been changed New Hampshire would have paid Tri-State almost 20% more in proportional advertising costs for FY 2000 than the amount actually billed.

The Tri-State financial statements and other schedules detail the complete expense pool, and are noted in the New Hampshire Lottery's annual report, CAFR, and the Tri-State Commission's annual report. All financial reports and meeting minutes are public documents and are available upon request.

## **Observation No. 2 - Controls Over Sweepstakes Prize Payment Disbursement Process Should Be Improved**

### *Observation:*

One Sweepstakes employee has the conflicting combination of responsibilities of controlling the Sweepstakes Commission's prize payment check stock, preparing the prize checks, controlling the signature plate, and using the signature plate to sign the prize payment checks. This lack of segregation of duties over the prize payment process is significant and places Sweepstakes at risk that one employee is in a position to be able to commit and conceal an error or fraud with regard to disbursements from the prize payment account.

Proper controls over disbursements require segregation of responsibilities. One individual should not have the ability in the normal course of business to issue a check singly. Controls should require that a second individual review and approve the production of all payment checks prior to disbursement. This control generally takes the form of the individual responsible for signing checks being independent of the check preparation process. This control is not currently in place over prize payments at the Sweepstakes Commission.

### *Recommendation:*

The Sweepstakes Commission should improve the controls over disbursements from its prize payment account. The responsibilities over custody of the check stock, preparation of the checks, custody of the signature plate, and signing of the checks should be adequately segregated to ensure that no one individual can make disbursements from the prize payment account without a second individual participating in an authorizing and approving control function for the disbursements.

### *Auditee Response:*

We do concur. Proper segregation of duties will be instituted immediately. This will encompass custody of the checks, preparation of the checks and other functions in the prize disbursement process. Effective July 1, 2000 the new check system does not require signature plates.

## **Observation No. 3 - Proper Business Relationships Between Employees And Vendors Should Be Safeguarded**

### *Observation:*

A social event organized by a Sweepstakes vendor could be seen as promoting non-business relationships between the vendor and the Sweepstakes Commission and its employees. Promoting non-business relationships between employees and vendors increases the potential for the development of relationships that could result in conflicts of interest between the vendor and the Sweepstakes employees responsible for the oversight of the vendor's performance.

### **Observation No. 3 - Proper Business Relationships Between Employees And Vendors Should Be Safeguarded (Continued)**

#### *Observation (Continued):*

The code of ethics promulgated by the Governor through Executive Order Number 98-1 prohibits the acceptance of gifts “from a person who is subject to or likely to become subject to or interested in, any matter or action pending before or contemplated by the public employee or official or by the governmental body with which that employee or official is affiliated.” This rule in part is intended to promote proper business relationships and to minimize the potential for the development of non-business relationships that could result in actual or perceived conflicts of interests between employees and vendors and other service providers that the employees evaluate for performance as part of their regular duties.

A primary vendor to the Sweepstakes Commission offered to sponsor a dinner and dance to recognize the good work performed by Sweepstakes and vendor employees in a conversion of Sweepstakes’ on-line games systems. When the event was originally discussed, the vendor intended to pay for the entire event. Sweepstakes properly responded that the State’s conflict of interest guidelines would prohibit the vendor from paying for the event as an improper gift to State employees. Sweepstakes also conditioned that if the event was to occur, Commission employees would have to pay for their fair share of the costs of the event. The event took place with the vendor setting the cost for the meal and dancing at \$15 per person.

The fact that the vendor originally intended to pay for the entire event suggests that the vendor believed that hosting the event would provide the vendor with a more favorable position or condition with respects to the Sweepstakes Commission. The fact that Sweepstakes’ employees paid for their attendance at the function lessens but does not eliminate the potential for the development of relationships that could negatively affect Sweepstakes’ control structure.

#### *Recommendation:*

The Sweepstakes Commission should be more guarded in its dealings with its vendors to ensure that the proper business relationships are developed and maintained. Sweepstakes should not be regarded as either promoting or sanctioning non-business relationships between its employees and its vendors or other service providers and should discourage its vendors from promoting this type of relationship. Sweepstakes must ensure that its employees are able to perform their duties efficiently and faithfully and without concern for perceived or actual non-business relationships that may develop with Commission vendors and other service providers.

**Observation No. 3 - Proper Business Relationships Between Employees And Vendors Should Be Safeguarded (Continued)**

*Auditee Response:*

We do concur that the Governor's executive order number 98-1 prohibited acceptance of gifts by our employees. The Sweepstakes Commission informed all employees of this order at the time of its publication. The Commission does not have any knowledge of the executive order number 98-1 being breached by its employees.

For the dinner and dance that Sweepstakes employees attended, there was a \$15 fee for employees and an additional fee for each guest of the employee. The Commission does not believe that such a rare social event would have any effect on the Commission's oversight of the vendor.

**Observation No. 4 - Sales Office Accountability Should Be Improved**

*Observation:*

There is a lack of accountability over sales transactions occurring in the Sweepstakes Commission's main sales office as access to sales clerks' cash drawers is not adequately secured and sales clerks share online gaming terminal passwords.

Effective internal control procedures prescribe that entities establish and maintain effective accountability and security over computer access, transaction processing, and the custody of cash receipts. Sweepstakes employees who work in the sales office should be accountable for the transactions that they process. Because sales office employees may, on occasion, share terminals and cash drawers and terminals are not closed out and cash drawers are not locked when cashiers go on break, it may be difficult or impossible to establish the responsibility for any error or fraud that may occur in the sales office.

*Recommendation:*

The Sweepstakes Commission should establish procedures providing accountability over transactions processed in its sales office. Sales office clerks should not share cash drawers or passwords to access the sales terminals. Sales terminals should be closed down and cash drawers locked when sales clerks go on breaks or otherwise leave the sales office area. Providing accountability over sales transactions will allow for increased controls over revenue collected and also provide management with information on clerk performance useful for personnel evaluation and training purposes.

*Auditee Response:*

We do concur. We are reviewing with the vendor the issuance of individual pass codes for the sales terminals. Sales clerks have been advised to lock their cash drawers when the drawers are unattended.

#### **Observation No. 4 - Sales Office Accountability Should Be Improved (Continued)**

##### *Auditee Response (Continued):*

We have one full time Primary Sales Clerk who uses one of the sales terminals in the sales office with a cash drawer. We have one back up sales clerk each day to cover the primary sales clerk's breaks and lunch.

The back up person uses a separate cash drawer than the primary sales clerk and second terminal in the sales office. Each day an employee from the cashier's office balances out the separate cash drawers of each clerk.

The only time cash drawers have been shared has been at Christmas time if the sales office was busy and required more than two clerks. That may happen a couple days out of the year and for a short time frame, but it has not been the policy of this agency to share cash drawers. Because this situation is so infrequent it does not warrant the purchase of additional cash drawers and requests to governor and council for additional petty cash to fund the drawers.

#### **Observation No. 5 - Reconciliation Process For Cash Accounts Should Be Improved**

##### *Observation:*

The Sweepstakes Commission does not directly reconcile the financial activity as reported in its general ledger cash accounts to the financial activity reported by the bank statements for the accounts. Also, the results of the reconciliations are not forwarded to Commission management for review and approval.

Bank reconciliations are an essential control to ensure that errors or frauds that may occur in the accounts either as reflected in the book or bank records are detected and corrected in a timely manner.

The Sweepstakes Commission performs a monthly account reconciliation between the general ledger cash account balance and the \$500,000 approved balance in the revolving account. Sweepstakes also reconciles the bank reported balance in the account to the \$500,000 approved balance but it does not directly reconcile the accounts balance and activity per the general ledger to the amounts reported by the bank statements. Because the reconciliation procedures used by Sweepstakes for this account do not directly reconcile general ledger balance and activity to the bank-reported financial information, Sweepstakes may not detect errors or frauds that may be apparent from a direct reconciliation of its general ledger and the banks' records and statements in a timely manner.

Sweepstakes uses similar indirect reconciliation methods for its other depository cash accounts. The results of the reconciliations are not reported to supervisors unless unresolved problems are noted, at which point management is informed.

**Observation No. 5 - Reconciliation Process For Cash Accounts Should Be Improved (Continued)**

*Recommendation:*

The Sweepstakes Commission should include a direct reconciliation of the general ledger cash balance and activity to the account information reported by the bank statements in its monthly reconciliation process. This will help ensure that errors or frauds related to the cash accounts are noted in the reconciliation process and resolved in a timely manner.

The results of the completed reconciliations should be forwarded to appropriate Sweepstakes management for review and approval.

*Auditee Response:*

We do concur. We will begin a new process in the reconciliation of the revolving cash account to the general ledger.

**Observation No. 6 - Delinquent Agent Accounts Should Be Monitored More Closely**

*Observation:*

Delinquent agent accounts are not formally reviewed on a regular basis by Sweepstakes management. There are no established procedures to periodically follow up on accounts once they have been referred to the Department of Justice for issuance of a demand letter.

Agents who are delinquent in their accounts with the Sweepstakes Commission and who fail to make payments on account, or do not cooperate with Sweepstakes in clearing the default, have their accounts referred to the Department of Justice for assistance in collections. Sweepstakes has not established procedures to follow up on these delinquent accounts. In addition, while Sweepstakes maintains records of the problem accounts, it does not prepare aging schedules that could assist management in its review of any changes in the status of these accounts.

At June 30, 2000 there were 46 delinquent accounts with approximately \$140,000 owed Sweepstakes. Sweepstakes indicates that approximately \$100,000 of this amount appears uncollectible, either because the agents have declared bankruptcy or the accounts are excessively old.

*Recommendation:*

The Sweepstakes Commission should improve its monitoring procedures for delinquent agent accounts. Sweepstakes should perform more timely follow up on the status of accounts referred to the Department of Justice for assistance on collections and should prepare aging and other appropriate schedules for management's review of the status of these accounts.

**Observation No. 6 - Delinquent Agent Accounts Should Be Monitored More Closely (Continued)**

*Auditee Response:*

We do concur. Schedules showing the history of these delinquent accounts will be prepared for management review.

**Observation No. 7 - Responsibilities For Adjustments To The Accounting Records Should Be Segregated**

*Observation:*

The person responsible for authorizing adjustment transactions in the automated gaming system is also able to key adjustment transactions to the system.

In order for segregation of duties to be an effective control, employees should not have a conflicting combination of responsibilities. There should be segregation between the ability to perform a function and the ability to authorize the function to be performed. Thereby, the completion of the function requires the interaction of more than one individual. This prevents an individual from being able to commit and also be responsible for detecting an error or fraud in an accounting or other controlled procedure.

This segregation of duties is not effective over all adjustments posted to Sweepstakes' automated gaming system as the individual who normally authorizes adjustments to be posted to the system also has access and authority to post adjustments to the system. While Sweepstakes management reviews reports from the system and may notice and question adjustments posted by this individual, the adjustments posted are not subject to a formal approval process as are all other adjustments.

*Recommendation:*

The Sweepstakes Commission should segregate the responsibility for posting adjustments and approving adjustments to its automated gaming system.

*Auditee Response:*

We do concur. For online games there is segregation of duties, the warehouse supervisor writes up the adjustments, the data entry clerk keys the adjustments and the Accountant I writes the journal entries.

The instant ticket department receives the information from the retailers and liquor stores, and then they key the adjustments. Due to limited staffing this will continue, but their supervisor will sign off on them before they are keyed as well as the Games Manager. The Accountant I also writes the instant journal entries.

## **Observation No. 8 - Control Over Returned Prize Payment Checks Should Be Enhanced**

### *Observation:*

Prize checks that are returned in the mail due to incorrect addressing, etc. are returned to the employee who initially mailed the checks out. Checks returned in the mail are not listed, tracked, voided, or otherwise safeguarded against misuse. If new addresses are located, the checks are remailed. If addresses are not located, the checks remain filed in a drawer at Sweepstakes for a year until the checks are voided and the funds sent to the State's abandoned property program.

### *Recommendation:*

The Sweepstakes Commission should enhance its controls over prize checks that are returned in the mail as undeliverable. Procedures should be established that provide for tracking of returned checks. At a minimum, checks should be recorded as received on a log to allow for tracking. Sweepstakes should consider endorsing for deposit all returned checks. New checks should be issued if and when correct addresses are located. Checks should not remain on file at Sweepstakes for extended periods of time prior to being secured.

### *Auditee Response:*

We do concur. The reception employee will log these prize checks and give a copy of the log to the Accountant II supervisor. The supervisor will follow up on what action is taken concerning these return prize checks. The action taken will also be logged.

## **Observation No. 9 - Checks Should Be Restrictively Endorsed Upon Receipt**

### *Observation:*

Checks received by the Sweepstakes Commission are not restrictively endorsed "for deposit only" by the individual who initially receives the payment on behalf of Sweepstakes.

Checks that are not restrictively endorsed "for deposit only" are subject to misuse.

### *Recommendation:*

All checks received by the Sweepstakes Commission should be restrictively endorsed "for deposit only" by the individual who initially receives the payment on behalf of Sweepstakes.

### *Auditee Response:*

We do concur, all checks will be endorsed by the receptionist.



**Observation No. 10 - The Authority For The Payment Of Incentives To Agents Who Cash Pick 3/Pick 4 Winning Tickets Should Be Clarified**

*Observation:*

There is no clear statutory or administrative rule authority for the Sweepstakes Commission's payment of cashing incentives to its agents who cash winning Pick 3/Pick 4 game tickets.

N. H. Admin. Rules, SW 1005.02 provides for a cashing incentive to be paid to agents who cash winning instant ticket game tickets. There is no similar rule providing for a cashing incentive to be paid to agents who cash winning Pick 3/Pick 4 game tickets.

*Recommendation:*

The Sweepstakes Commission should review its payment of cashing incentives to agents who cash Pick 3/Pick 4 winning tickets. If it is determined that it is appropriate to continue these incentive payments in order to encourage agents to cash winning lower-tier prizes for the Pick 3/Pick 4 game, Sweepstakes should amend or adopt a rule to allow for these payments.

*Auditee Response:*

We do concur. The Tri-State Lotto Commission will be requested to approve a rule for cashing incentive for Pick 3 and Pick 4.

**Observation No. 11 - Bingo And Lucky 7 Reporting Compliance Should Be Reviewed**

*Observation:*

The Sweepstakes Commission allows Bingo game operators and Lucky 7 licensees to be out of compliance with reporting due dates without requiring the operators and licensees to show the good cause required by statute.

RSA 287-E establishes a number of reporting requirements for operators of Bingo games and for Lucky 7 licensees. Generally, the statutes allow Sweepstakes to waive certain reporting requirements for good cause shown.

During testing of a sample of 10 operators of Bingo games and 10 Lucky 7 licensees we noted significant noncompliance with report due dates. Generally, the reports were one to two days late, however some were up to eight days late. In each instance, Sweepstakes waived the report due date requirement. Sweepstakes did not document the basis or "good cause shown" for its waiving of the requirement.

**Observation No. 11 - Bingo And Lucky 7 Reporting Compliance Should Be Reviewed (Continued)**

*Recommendation:*

The Sweepstakes Commission should review whether the current levels of compliance are acceptable and promote the best interests of Sweepstakes and the State. Sweepstakes may want to consider adopting a post-mark date to measure compliance with the reporting due dates to lessen the effects of delayed mail service.

Regardless of what if any changes may be enacted, Sweepstakes should document reasons for its waiving statutory requirements.

*Auditee Response:*

We do concur. The Sweepstakes Commission is constantly working with the many New Hampshire charities in adhering to the laws on rules governing bingo and lucky 7. This also includes the reports that are sent in beyond the 15 days requirement; this can be waived for good cause. Waiving the time limit does not create a hardship to the Commission and allows the organizations to operate un-interrupted games, and therefore, does not reduce the various state taxes and fees.

**Observation No. 12 - Responsibilities For Collecting Revenues From Delinquent Agents And Waiving Fees For Bounced Electronic Fund Transfers Should Be Segregated**

*Observation:*

There is a lack of segregation of duties over the responsibilities for the collection of fees from bounced electronic fund transfers and the authority to waive those fees.

The person responsible for collecting revenues from delinquent agents also has the authority to waive fees for bounced electronic fund transfers. During fiscal year 2000, approximately \$2,700 of fees for bounced transfers were waived by the Sweepstakes Commission.

In order for segregation of duties to be an effective control, employees should not have a conflicting combination of responsibilities. There should be segregation between the ability to perform a function and the ability to authorize the function to be performed. Thereby, the completion of the function requires the interaction of more than one individual. This prevents an individual from being able to commit and also be responsible for detecting an error or fraud in an accounting or other controlled procedure.

There is no effective segregation of duties control over the responsibility for collecting fees from agents who have insufficient funds in their accounts to cover the periodic transfers of net ticket sales. The Sweepstakes employee who normally collects those fees also is authorized to waive the fees.

**Observation No. 12 - Responsibilities For Collecting Revenues From Delinquent Agents And Waiving Fees For Bounced Electronic Fund Transfers Should Be Segregated (Continued)**

*Observation (Continued):*

There is no review and approval function over the determinations made by this employee. While Sweepstakes management may review reports which include information related to the waiving of fees and may notice and question adjustments posted by this individual, the waiving of fees are not subject to a formal approval process.

*Recommendation:*

The Sweepstakes Commission should segregate the responsibility for collecting fees from bounced electronic fund transfers and approving the waiving of the fees. A single individual should not be in a position to both collect and waive amounts owed to Sweepstakes.

*Auditee Response:*

We do concur, all waiving of fees for bounced checks will be authorized by management.

**Observation No. 13 - Provisions For Unclaimed MUSL Game Prizes Should Be Made In Determining Unclaimed Prize Liability**

*Observation:*

The Sweepstakes Commission does not reduce its unclaimed prize liability account to reflect winning Multi-State Lottery Association (MUSL) game tickets that will not be claimed.

Annually, the Sweepstakes Commission makes an accounting adjustment to reflect the fact that an estimable number of winning instant ticket game prizes will never be claimed. This reduction of the unclaimed prize liability account reflects Sweepstakes' known experience that a certain percentage of winning tickets will never be presented to claim prizes because the tickets get lost, players do not recognize a winning ticket, players don't bother to claim a prize, etc.

The adjustment made by the Sweepstakes Commission reflects anticipated unclaimed tickets from its instant ticket games only. Sweepstakes does not make a similar adjustment from its MUSL game prize liability account even though the amount of prizes that will not be claimed is estimable. (Unclaimed Tri-State game amounts roll into special promotional jackpot games.)

The effect of not reducing the unclaimed prize liability account for the effect of winning MUSL game tickets that will never be presented for payment is to understate the amount of net profit available to transfer to the State's Education Trust Fund.

**Observation No. 13 - Provisions For Unclaimed MUSL Game Prizes Should Be Made In Determining Unclaimed Prize Liability (Continued)**

*Observation (Continued):*

At June 30, 2000, approximately \$260,000 of unclaimed MUSL game prize liability should have been reflected as prizes likely never to be paid and included in the amounts transferred by Sweepstakes to the State's Education Trust Fund for fiscal year 2000. Because the Sweepstakes did not make this adjustment, the transfer of this amount will be delayed until the following fiscal year.

*Recommendation:*

The Sweepstakes Commission should be more consistent in its determination of unclaimed prize liability amounts. The Sweepstakes Commission should include the MUSL games in its adjustments to the unclaimed liability account to reflect prizes that will never be claimed. The amount to adjust the MUSL games liabilities annually should be based on prize claims experience and determined after a review of the history of total prizes won, purged prizes, and the percentage of prizes purged for recent fiscal years.

*Auditee Response:*

We do concur. Currently all MUSL games have a report that details all expired unclaimed prizes at the end of a period of 365 days. Unclaimed prizes at the end of this period are returned to net income. We have begun to study the history of unclaimed prizes so that we could make an adjustment at year end. We do an estimate for instant tickets unclaimed prizes due to the fact that we do not have a computer report that automatically calculates this amount.

## State Compliance Comment

### **Observation No. 14 - Current Information Technology Plan Should Be Filed**

*Observation:*

The Sweepstakes Commission has not filed a current Information Technology Plan (ITP) with the State's Division of Information Technology Management.

RSA 9:4-b requires each executive branch agency to prepare an ITP in accordance with the process established by the Director of the Division of Information Technology Management. The ITP process is intended to ensure that State agencies purchase computer systems that are compatible with other State systems and are able to efficiently and effectively interchange information with other State systems. The ITP covering fiscal years 2000-2001 was due by October 1, 1999. According to Sweepstakes personnel, the ITP has not been completed due to work related to the on-line games vendor selection, which occurred in the spring of 2000, taking precedence.

Agencies that do not have current ITPs are prevented from purchasing certain computer hardware and software until an ITP is submitted and approved. Because Sweepstakes does not have an approved current ITP in place, it runs the risk of delays in obtaining new computer software and hardware that may be needed for its operations.

*Recommendation:*

The Sweepstakes Commission should develop and submit an ITP to the Division of Information Technology Management to ensure efficient continuation of its computer-based operations.

*Auditee Response:*

We do concur. The Information Technology Plan was submitted on February 5, 2001 for the Fiscal Years 2001-2005.

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Sweepstakes Commission as of and for the year ended June 30, 2000 and have issued our report thereon dated December 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit of the financial statements of the New Hampshire Sweepstakes Commission for the year ended June 30, 2000, we noted certain issues related to the operation of Sweepstakes that merit management consideration but do not meet the definition of reportable conditions as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, or regulations.

The issues that we believe are worthy of management consideration but do not meet the criteria of reportable internal control or compliance conditions are described in observations No. 15 through No. 18 of this report.

This auditor's report on management issues is intended solely for the information and use of the management of the New Hampshire Sweepstakes Commission and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

*Office Of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

December 1, 2000

## Management Issues Comments

### **Observation No. 15 - Sweepstakes Must Gain A Better Understanding Of Its Participation In Its Joint Lottery Ventures**

*Observation:*

The Sweepstakes Commission does not fully understand its joint venture relationships with the Tri-State Lotto Commission and the Multi-State Lottery Association, including claims Sweepstakes may have on retained earnings and reserves reported by the joint ventures. As a result, the Sweepstakes Commission may not be aware of all of its potential resources and its decisions made may not be based on the best available information.

- At June 30, 2000, the Sweepstakes Commission disclosed in the notes to its financial statements \$1.6 million as its share of a \$5 million Tri-State contingency reserve. Sweepstakes also reported in the notes to its financial statements that the Tri-State joint venture reported an additional \$10 million of retained earnings as unrealized gains on investments held for prize payments. Sweepstakes did not fully understand the nature of this reported retained earnings amount and could not disclose whether it had a claim on any portion of this amount. Sweepstakes also disclosed in the notes to its financial statements \$2.2 million as its share of reserves held by the Multi-State Lottery Association.

Full understanding of these reserves and other amounts may require the Sweepstakes Commission to report amounts as retained earnings on the face of its financial statements, promote consideration of various investment options at the Tri-State Commission, and generally provide Sweepstakes management with better information on which to base decisions.

- The Sweepstakes Commission does not have documentation to describe what portion of the \$5 million reserve held by Tri-State is attributable to Sweepstakes, nor has it documented what would happen to the reserve if it or other members of the Tri-State Lotto Commission wanted to withdraw from the organization.

The Sweepstakes Commission may not be receiving its fair share of the interest earned on the Tri-State reserves account. Interest earned on the \$5 million reserve is currently allocated to the member states proportionally based on current period sales even though the funding of the reserve was done prior to Sweepstakes' participation in the Powerball game in 1996. At that time, the Sweepstakes Commission's share of sales and allocations to fund the reserve were at a significantly higher proportion of total sales than Sweepstakes' current share.

**Observation No. 15 - Sweepstakes Must Gain A Better Understanding Of  
Its Participation In Its Joint Lottery Ventures (Continued)**

*Observation (Continued):*

- Reportedly, the Tri-State Lotto Commission members have not established “wind-up” provisions for the organization. While the Tri-State Lotto Compact declares that a member state may withdraw from the organization without rendering the compact invalid, the compact does not address how a member state may withdraw and the rights of a member state to any allocation of the retained earnings of the Tri-State Commission.

Organizations should clearly understand, be able to define, and show documents to explain their relationship with their joint ventures and other related organizations, including any rights to the related organizations’ equity and obligations for the related organizations’ liabilities.

*Recommendation:*

The Sweepstakes Commission must gain a better understanding of its relationships with the Tri-State Lotto Commission and the Multi-State Lottery Association to ensure that the Sweepstakes Commission properly understands its ownership of, ability to access, responsibility for, and financial reporting of reserves and other amounts reported by organizations of which it is a member.

- The Sweepstakes Commission should review the nature of, and determine the proper financial reporting for, the retained earnings reported by the Tri-State Lotto Commission and the reserve amounts reported by the Multi-State Lottery Association.
- Once ownership is established for the Tri-State reserve account, interest earnings on the reserve should be appropriately distributed.
- The Sweepstakes Commission should work with the Tri-State Lotto Commission to more fully describe the Tri-State Lotto organization, including establishing wind-up provisions for the organization.

*Auditee Response:*

We concur with the recommendation. The agency will further research these issues with the assistance of the Legislative Budget Assistant’s Office and Administrative Services.



## **Observation No. 16 - Employment Status Of Sweepstakes Employees Hired By The Tri-State Lotto Should Be Reviewed**

### *Observation:*

Sweepstakes Commission employees are hired by Sweepstakes officials, in the name of the Tri-State Lotto Commission, to perform nightly Tri-State game drawings and related internal control activities at Sweepstakes headquarters<sup>1</sup>.

The proper employment status of these workers is not clear and may result in conflicts of interest issues related to confusion over loyalty and fiduciary responsibility to the perceived interests of the different employers. Also, Sweepstakes employees hired to perform Tri-State activities may not be receiving all the benefits that they may be entitled to and may not be receiving pay according to current State contract provisions.

Currently, Sweepstakes employees performing after-hours Tri-State game functions are not provided with benefits, including credit in the New Hampshire Retirement System, and are not paid according to State pay classifications and schedules. Contributing to the confusion in the employment status of these workers are the facts that only Commission employees are hired to perform these functions, the employment agreement is signed by the Sweepstakes Commission's director as the employer, the direct supervisors listed on the employment agreements are Sweepstakes employees not parties to these separate employment agreements with Tri-State, and the work is performed at the Sweepstakes headquarters building using Tri-State and Sweepstakes equipment. While Tri-State pays these employees directly and files tax documents as the employer, Sweepstakes employees could perform these game draw and related internal control activities as part of their normal Sweepstakes duties and Sweepstakes could bill Tri-State for reimbursement of Tri-State's share of the expenses.

Sweepstakes employees, as part of their normal Sweepstakes duties and employment status, perform similar internal control work after normal business hours for the Powerball game.

---

<sup>1</sup> According to Tri-State Commission minutes of June 2, 2000, member states were provided an option for the employment status of the workers performing work for Tri-State. "ICS [internal control system] personnel may be Tri-State employees at the election of each state. A separate state-specific employee account will be established that will pay personnel from **that employee's state's funds** (similar to travel and advertising)." [emphasis added.] If this option was not taken, the cost for Sweepstakes employees performing ICS functions would be a normal Sweepstakes personnel cost and game-drawing costs would be reimbursed from the Tri-State expense pool.

**Observation No. 16 - Employment Status Of Sweepstakes Employees Hired By The Tri-State Lotto Should Be Reviewed (Continued)**

*Recommendation:*

The Sweepstakes Commission should review with legal counsel the propriety of hiring Sweepstakes employees in the name of the Tri-State Commission to perform the above-mentioned game draw and internal control work. As part of this review, Sweepstakes should consider the requirement for the disparate treatment given its employees performing the Tri-State work and its employees performing similar Powerball related work.

*Auditee Response:*

We concur with the recommendation. In the beginning years of Tri-State, Tri-State employees were hired to conduct Tri-State drawing activities. The introduction of the Internal Control System to balance drawing results is a natural progression of these duties. We will seek legal advice as recommended.

**Observation No. 17 - Communication And Coordination Of Efforts With The Department Of Administrative Services, Bureau Of Financial Reporting Should Be Improved**

*Observation:*

The communication and coordination of efforts between Sweepstakes' finance department and Department of Administrative Services, Bureau of Financial Reporting needs improvement. Lack of communication and coordination of efforts has resulted in inefficiencies in reporting Sweepstakes' financial activity in Sweepstakes' and in the State's comprehensive annual financial reports (CAFRs) and has allowed known inaccuracies in the State's accounting system (NHIFS) information to remain uncorrected.

The Department of Administrative Services, Bureau of Financial Reporting is the State's primary resource for financial reporting expertise. Sweepstakes' finance department does not fully coordinate its efforts in preparing Sweepstakes' CAFR with the Bureau of Financial Reporting's preparation of the State's CAFR. Sweepstakes relies upon in-house expertise to prepare its CAFR.

- The Sweepstakes Commission has not taken advantage of the financial reporting expertise available in the Bureau of Financial Reporting in preparing its CAFR.

The Sweepstakes Commission prepares its CAFR and submits its financial statements to the Bureau of Financial Reporting which revises the presentation of the information and reports the amounts in the Enterprise Funds of the State's CAFR. The effect of this lack of coordination has been inefficiencies in the preparation of the reports and also instances where the categorization of amounts reported for the Sweepstakes Enterprise Fund have differed between the Sweepstakes and State CAFRs.

**Observation No. 17 - Communication And Coordination Of Efforts With The Department Of Administrative Services, Bureau Of Financial Reporting Should Be Improved (Continued)**

*Observation (Continued):*

Also, Sweepstakes primarily relies upon the financial reporting expertise of its staff in preparing its CAFR. This reliance on in-house expertise in a relatively small office becomes problematic when key individuals leave employment as happened to Sweepstakes during the fiscal year 2000 report-preparation process.

The Sweepstakes Commission, as a department of State government, is responsible for reconciling its accounting records to the financial reports and statements prepared by the Department of Administrative Services, including the Bureau of Financial Reporting. The Sweepstakes Commission does not completely review and reconcile all financial activity of the Commission as reported in NHIFS prepared by the Department of Administrative Services. Differences in amounts between Sweepstakes' records and NHIFS are not necessarily detected and corrected in a timely manner.

- NHIFS is not completely reliable for reporting activity in the Sweepstakes Enterprise Fund. For example, at June 30, 2000, NHIFS reported a negative \$249,000 balance of deferred revenue in the Sweepstakes Enterprise Fund. According to the Sweepstakes financial records and CAFR, the amount of deferred revenue at June 30, 2000 was a positive \$703,000 a difference of \$952,000. The difference was due to Sweepstakes, over a number of years, neglecting to adjust NHIFS for the effect of winning \$1 and \$2 prize subscription tickets and inconsistent posting of Bingo and Lucky 7 amounts between Sweepstakes and NHIFS.

*Recommendation:*

Sweepstakes' finance department should work more closely with the Bureau of Financial Reporting to establish efficiencies in reporting Sweepstakes Enterprise Fund financial activity in both Sweepstakes' and the State's CAFRs.

Sweepstakes' finance department should develop policies and procedures to ensure that all financial reporting, including the periodic NHIFS reports, are reviewed and reconciled in a timely manner. Known differences should not be allowed to remain uncorrected in the State's accounting records under the assumption that no one uses the incorrect data.

*Auditee Response:*

We do concur. All financial data is reported using the NHIFS system. Reconciliation of expenses, revenues and cash accounts are prepared monthly.

The Sweepstakes Commission will contact the Bureau of Financial Reporting in coordinating the preparation of the CAFR. We will seek Administrative Services' advice on reconciling Sweepstakes Balance Sheet to the NHIFS system reporting for Sweepstakes.

## **Observation No. 18 - The Propriety Of Paying Bonuses To State Liquor Store Employees Should Be Reviewed**

### *Observation:*

The Sweepstakes Commission directs the payment of sales bonuses to employees of State Liquor Stores that sell winning Sweepstakes tickets. The bonuses are paid by Tri-State Lotto Commission or Multi-State Lottery Association checks directly to the State employees and are not subject to tax, retirement, or other withholdings by the Sweepstakes or Liquor Commissions. The sales bonuses are split among the employees of the store, based on an allocation prepared by the Liquor Commission. In the case of Tri-State games, the cost of the bonus is shared among the three Tri-State partner states. In the case of Multi-State Lottery games, the cost of the bonus is a direct charge against Sweepstakes' share of game income.

RSA 284:21-s provides Sweepstakes with the authority to pay bonuses to its agents for the sale of winning tickets as an added incentive (in addition to the 5% agent commission) to encourage the sale of tickets. Sweepstakes considers the Liquor Commission stores to be agents subject to this incentive program even though the Liquor Commission must sell tickets according to statute and the Liquor store employees who receive the bonus may not be involved in the sale of Sweepstakes tickets. A bonus is paid to the employees of the store where the tickets were sold regardless of whether a liquor store employee sold the ticket or a Sweepstakes employee assigned to an outlet at the store sold the winning ticket.

- A. Paying bonuses to State employees for the sale of winning tickets may not be an effective use of Sweepstakes proceeds, as the sale of tickets is a normal function of Liquor Store employees required by RSA 284:21-h, II(a).
- B. Allowing an outside party to pay bonuses directly to State employees may not be appropriate, as there are no clear provisions in State law for arguably outside parties to pay State employees bonuses for performing their regular employment duties.
- C. Not subjecting these bonus payments to tax, retirement, or other withholding may also be contrary to employment law.

### *Recommendation:*

The Sweepstakes Commission should review the propriety of paying bonuses to State employees at liquor stores where winning tickets are sold. Legal counsel should be consulted as part of this review.

If it is determined that the payment of bonuses remains appropriate, the bonuses should be subject to all appropriate withholding and benefit deductions.

### *Auditee Response:*

We concur with the recommendation and will seek legal advice as recommended.

**APPENDIX**

**Current Status Of Prior Audit Findings**

The following is a summary of the status, as of December 1, 2000, of the observations contained in the fiscal year 1999 Sweepstakes management letter. A copy of the fiscal year 1999 Sweepstakes management letter can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House, Room 102, Concord, NH. 03301.

	<b>Status</b>
<b>Internal Control</b>	
<i>Reportable Conditions</i>	
1. Inadequate Monitoring Of Advertising Contract	● ● ●
2. Unresolved Prior Audit Comment (Disaster Recovery Plan For On-Line Games Vendor)	● ● ●
<b>State Compliance</b>	
3. Merchandise Prizes Not Subject To Child Support Intercept	● ● ●
<b>Management Issues</b>	
4. Performance Measurement Considerations For Future Products	● ● ●

**Status Key**

Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

**THIS PAGE INTENTIONALLY LEFT BLANK**