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December 12, 2008

To the Fiscal Committee of the General Court
and the New Hampshire Lottery Commission
State of New Hampshire

Ladies and Gentlemen:

We have audited the financial statements of the New Hampshire Lottery Commission (the Commission), for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. In planning and performing our audit of the financial statements of the New Hampshire Lottery Commission, we considered internal control as a basis for designing our auditing procedures 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Information Technology Review of Platinum General Ledger

We performed a review of IT General Controls including access to programs and data, program changes, program development and computer operations around the Platinum General Ledger system. We identified a few controls not being performed. Specifically, these controls are that backup tapes are not periodically tested and files are being restored on an ad-hoc basis only, and there are no formalized policies and procedures in place addressing backup and restoration activities.

We recommend that the Lottery formalize procedures related to testing backup files to ensure files are properly and completely backed up, and restored.

Management Response:

The Lottery reviewed the costs related to this and decided that it would not be economical to spend the funds knowing that the State was replacing the Lottery's general ledger with the new ERP system. The new system was scheduled to begin July 1, 2008; however it was delayed and is now scheduled for July 1, 2009.

Large Prize Claim Process

We noted that the certain large prize claim procedures were not performed in all cases. Specifically, in one instance, supervisor approval was not evidence of being performed. In another instance, with a Powerball winner, there was no check performed against the MUSL database to ensure the winner was not a MUSL employee.

We recommend the Commission ensure that all these large claims procedures are strictly adhered to. This process will help ensure all winners are appropriately paid out in accordance with rules and regulations.



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Management Response:

The Lottery does obtain supervisory or secondary approval on all prize claims; however this one was not initialed by the supervisor who approved it. Procedures call for all approvers to initial the claim. The Lottery has implemented another step in the procedures to review all prize claims before they are filed to be sure they have been initialed.

The Powerball winner was checked against the MUSL database; unfortunately the employee performing the action forgot to stamp the paperwork to show it had been checked. Procedures call for the paperwork to be stamped identifying that proper action was taken. The Lottery now has a process whereby; the supervisor checks all paperwork for proper stamping.

Dedicated Trust Accounts

The Commission does not require agents to set up dedicated trust accounts for New Hampshire Lottery proceeds. Therefore, it has no ability to ensure that it receives notification automatically from TD BankNorth when agents switch banks, bank accounts or otherwise remove themselves from the EFT sweep system.

The Commission should consider requiring agents to maintain dedicated trust accounts for Lottery proceeds and explore with TD BankNorth a method which will allow for automatic notification if agents switch bank accounts and move out of the EFT banking system.

Management Response:

Currently, if a retailer's account is insufficient the Lottery is notified in approximately 3 to 4 days from the time the Lottery requests funds. To this point there has not been a problem with a retailer closing; however if they were to do this the Lottery would be notified as stated above, in 3 to 4 days after the return for insufficient funds occurs.

The Lottery is researching the feasibility of having dedicated trust accounts with approximately 1300 retailers. We have asked the bank to look into the fees associated with this and any possible risks. We have also asked Treasury for input. We are asking NASPL to perform a survey of other lotteries to see if any other lotteries use dedicated trust accounts. The lottery will also determine additional requirements and costs of its retailers, any additional lottery administrative duties and responsibilities and additional lottery expenses to establish and maintain the large quantity of accounts.

The Commission's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Commission gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at a mutually agreeable time.



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This communication is intended solely for the information and use of management, Lottery Commissioners, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP