

**STATE OF NEW HAMPSHIRE  
LOTTERY COMMISSION**

**MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**





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## State of New Hampshire

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### *To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Lottery Commission (Lottery) as of and for the fiscal year ended June 30, 2022 and have issued our report thereon dated December 19, 2022.

This management letter, a byproduct of the audit of the New Hampshire Lottery Commission for the fiscal year ended June 30, 2022, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The current status of prior audit comments, beginning on page 7, provides a summary of the status of observations presented in the fiscal year 2021 and fiscal year 2020 Lottery Commission management letters.

The Lottery is again submitting its annual comprehensive financial report (ACFR) 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 ACFRs 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 2021 ACFR, and it is believed that the 2022 ACFR conforms to the certificate of achievement program requirements. A copy of the Lottery's 2022 ACFR can be obtained from the New Hampshire Lottery Commission, 14 Integra Drive, Concord, NH 03301. The Lottery ACFR can also be accessed online at: <https://www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx>

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

December 19, 2022

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**STATE OF NEW HAMPSHIRE  
LOTTERY COMMISSION  
2022 MANAGEMENT LETTER**

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\* Comment suggests legislative action may be required.

**ABBREVIATIONS USED**

ACFR	Annual Comprehensive Financial Report
CUECs	Complementary User Entity Controls
FY	Fiscal Year
GFOA	Government Finance Officers Association
Lottery	New Hampshire Lottery Commission
MUSL	Multi-State Lottery Association
SOC	System and Organization Controls



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### **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, 2022 and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated December 19, 2022.

#### **Report On 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) as a basis for designing 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. We did identify certain deficiencies in internal control, described in Observations No. 1 and No. 2 that we consider to be significant deficiencies.

### **Report On Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from 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 financial statements. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in Observations No. 3.

### **Lottery Commission's Responses To Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the Lottery's responses to the findings identified in our audit and described in the accompanying observations. 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*

Office Of Legislative Budget Assistant

December 19, 2022



***INTERNAL CONTROL COMMENTS***  
***SIGNIFICANT DEFICIENCIES***

**Observation No. 1**

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**iLottery Revenue Reconciliation Control Should Be Strengthened**

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Lottery did not have effectively designed internal controls in place to ensure that iLottery revenue received during FY 2022 was complete and accurate.

The iLottery platform is managed by a sub-contractor of the Lottery’s gaming system vendor. The sub-contractor uses its proprietary gaming portal to report gaming data to Lottery. The sub-contractor calculates and remits the net revenue to Lottery on a weekly basis. The net revenue is calculated as follows: *Total Bets – Total Bonuses – Net Wins*.

While the Lottery did implement and perform a weekly reconciliation control in an attempt to ensure that the net revenue remitted was appropriate, the control was not effectively designed. Weekly, Lottery obtains several reports and essentially performs a recalculation of the net revenue amount to be remitted by the sub-contractor. However, review of the weekly recalculations during testing revealed that while Lottery obtained support for iLottery “total wins,” defined as total prizes **won** during the week, the amount actually used in the calculation of the weekly iLottery net revenue remitted was “net wins,” defined as total prizes **paid**. Lottery did not obtain support for, or tie-out the “net win” amount used by the sub-contractor in the weekly net revenue due to Lottery calculation.

Auditors obtained and reviewed fiscal-year 2022 annualized data from the sub-contractor (via Lottery) and reperformed the net revenue calculation and identified an unknown variance of approximately \$240,000 between the amount of iLottery revenues calculated and the amount reported by Lottery. Ineffectively designed reconciliations can prevent the timely detection, investigation, and correction of variances that may be caused by error or fraud. While the impact of the ineffectively designed revenue reconciliation appears to be inconsequential for fiscal-year 2022, this amount has the potential to become significant in the future due to the increasing volume of iLottery activity.

**Recommendation:**

**We recommend Lottery:**

- **review its current iLottery revenue reconciliation procedures, and work with the vendor to ensure that all relevant data points used in the reconciliation are agreed to valid supporting documentation.**
- **support its existing iLottery revenue reconciliation procedures with a formal, management-approved policy document.**

*Auditee Response:*

*We concur. The Lottery Commission is working with the vendor to find a solution to ensure all data points agree to the reconciled results. Lottery will also formally document its processes for review and approval for future reference.*

**Observation No. 2**

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**Ineligible Player Listings Should Be Updated Routinely**

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Certain listings used by Lottery during fiscal-year 2022 to identify ineligible players were not current.

Lottery offers a variety of traditional scratch tickets, e-instant tickets, as well as several draw-based games, such as Powerball, MegaMillions, Megabucks, etc., via its joint ventures with the Multi-State Lottery Association (MUSL) and Tri-State.

Each of the game offerings has a specified set of ineligible players who are excluded from both purchasing and winning prizes. These ineligible players are typically persons employed by the Lottery, the respective joint-venture, and the accounting firms under contract to observe drawings, as well as the household relatives of these individuals. Additionally, Lottery's contract with its gaming-system vendor specifically prohibits "officers, employees or immediate supervisors of such employees, or relatives living in the same house as these individuals" from purchasing or being paid a prize from any New Hampshire Lottery ticket.

In order to ensure that prizes are not awarded to ineligible players, Lottery reviews the names of individuals claiming prizes in the amount of \$600 or more at Lottery headquarters, against various ineligible players listings maintained by claims personnel.

Testing did not reveal that Lottery awarded any prizes to individuals included on the ineligible players listings; however, not all of the listings used for the review were up to date. Specifically, the listing used by Lottery to review for ineligible players employed by its gaming-system vendor, and household relatives of such individuals, had not been fully updated since December of 2019, a full two-years prior.

Inquiry with Lottery management indicated that the gaming system vendor had not provided, nor had Lottery requested, a fully updated listing since December 2019.

Failure to maintain current listings of gaming-system vendor employees and their related household members increases the risk that Lottery prizes could be improperly awarded to ineligible players, and potentially lead to the erosion of public trust in the Lottery.

**Recommendation:**

**Lottery should implement procedures to ensure that its gaming-system vendor provides routine and timely updates to the listings of individuals used to identify ineligible players, as required by individual game rules or contract.**

*Auditee Response:*

*We concur. An update of the ineligible player list has already been received and is in place at the sales office. Moving forward we will ensure that the ineligible player list is updated as least quarterly in association with other review of access and permissions. Compensating controls have been in place with respect to ineligible players. Specifically, the Director of Security receives notice of all changes in personnel of the gaming system vendor staff. That information is disseminated to all security approvers of claims. We will ensure, however, that a complete list of ineligible players employed by the gaming system vendor is updated regularly.*

## *STATE COMPLIANCE COMMENT*

### **Observation No. 3**

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#### **Administrative Rules Should Be Adopted And Statutory Language Clarified**

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Lottery has not adopted certain statutorily required administrative rules.

RSA 284:3-a became effective on January 1, 2022, officially establishing the Investigation and Compliance Division (Division) within the NH Lottery Commission (Lottery). The Division is charged with performing “such functions as the Lottery Commission may determine is necessary in relation to enforcement, including the investigation of all licensees, and proposed licenses, under this chapter and RSA 287-D” (Games of Chance).

With the establishment of the Investigation and Compliance Division, RSA 284:21-i, VII (Administrative and Rulemaking Provisions) was correspondingly amended to include a new section requiring Lottery to adopt “rules under RSA 541-A relative to the administration of the investigation and enforcement division, including processes for investigation, and qualifications for enhanced penalties.”

Prior to the establishment of the Investigation and Compliance Division, these enforcement and investigation activities were carried out within the Lottery’s Racing and Charitable Gaming Division. As such, the required rules noted in RSA 284:21-i, VII have been previously adopted under existing “Lot” series administrative rules (including Lot 8000, Lot 8200, and Lot 7200), with the exception of rules covering qualifications for enhanced penalties.

As of December 2022, management reports that Lottery is currently in the early stages of the rule-making process for rules relative to qualifications for enhanced penalties.

In addition, the statute requiring the adoption of administrative rules misnames the Investigation and Compliance Division as the Investigation and Enforcement Division, potentially creating confusion.

#### **Recommendation:**

##### **We recommend Lottery:**

- **continue to take steps towards developing and adopting administrative rules relative to qualifications for enhanced penalties, in accordance with RSA 284:21-i, VII.**
- **consult with the Attorney General’s office to determine whether statutory revision is necessary to update the Division’s name in RSA 284:21-i, VII to conform with RSA 284:3-a, establishing the Investigation and Compliance Division for clarity purposes.**

#### **Auditee Response:**

*We concur. The Lottery Commission anticipates amending the games of chance rules (Lot 7200) in 2023 to address this statutory change. We further agree to consult with the Department of Justice on the conflicting statutory language.*

## CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of December 19, 2022, of the observations contained in the New Hampshire Lottery Commission's Management Letters for the fiscal years ended June 30, 2021 and 2020. Those reports can be accessed at, and printed from, the Office of Legislative Budget Assistant website: [www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports.aspx](http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports.aspx)

### Status

#### *2021 Audit Comments* *Internal Control Comments*

#### Material Weakness

- 2021-1. **Lottery Should Develop And Implement Effective Internal Controls Over Sports Betting Revenues** ● ○  
*Consider amending contract with vendor to require the annual acquisition of a SOC 1 Type 2 report pertaining specifically to the NH Lottery; implement policies and procedures to review and assess risks associated with outsourced services, including when SOC 1 Type 2 reports should be written into contracts, as well as ensuring applicable CUECs are in place and operating effectively. Additionally, formally document policies and procedures covering the major areas of its sports betting operations including its process for completing monthly revenue share reconciliations, acceptance of the monthly revenue share, and documenting its review of the vendor's cash reserves in accordance with statute.*

#### Significant Deficiencies

- 2021-2 **Lottery Should Formally Document Policies And Procedures Covering Significant Aspects Of Its Financial Reporting Process** ● ○  
*Enhance financial accounting and reporting staff to account for the ever-increasing scope and complexity of Lottery's operations, and consider the establishment of a Director of Finance or similar position. Additionally, begin to formally document policies and procedures that address the significant aspects of its financial reporting process, including but not limited to: the development of significant estimates, monthly reconciliations, year-end accruals and adjusting entries, and the compilation and review of the Annual Comprehensive Financial Report.*
- 2021-3 **Council For Responsible Gambling Expenses Should Be Adequately Supported** ● ○  
*The Council should implement formal policies and procedures to ensure all invoices are adequately supported*

*in accordance with contracted terms, prior to being submitted to Lottery for payment. Duties should be appropriately segregated to allow for an independent review of invoices prior to payment, to ensure that expenses are valid and made in accordance with contracted terms.*

**2020 Audit Comments**  
**Internal Control Comments**

Status

Significant Deficiencies

- |        |   |   |   |
|--------|---|---|---|
| 2020-1 | <b>Lottery Should Continue To Develop The Division Of Sports Wagering And Strengthen Controls Over Mobile Sports Betting</b><br><i>Continue the development of the Division of Sports Wagering to ensure compliance with statute and administrative rule, and develop and formally document policies and procedures for the major activities of the Division.</i>   | ● | ● |
| 2020-2 | <b>Independent Service Auditor’s Report Over Mobile Sports Betting Activities Should Be Obtained And Reviewed</b><br><i>Consider a contract change order with the vendor to require the annual provision of a SOC 1 Type 2 report and implement policies and procedures to review and assess risks associated with outsourced services, including when SOC 1 Type 2 reports should be written into contracts, and ensuring, when applicable, relevant CUECs identified by the third party are in place and operating effectively.</i> | ● | ● |
| 2020-3 | <b>Building Access Controls Should Be Strengthened And Procurement Of A New Access Control System Should Continue</b><br><i>Continue to take steps to procure and implement a new access control system, review current procedures for monitoring employee access to the draw room, and consider expanding its review to include access to all secured areas within the building.</i>   | ● | ● |

State Compliance Comment

- |        |   |   |   |
|--------|---|---|---|
| 2020-4 | <b>Statements Of Financial Interests Should Be Filed As Required By Statute.</b><br><i>The Council for Responsible Gambling (Council) should establish procedures to ensure all administratively attached Council members submit statements of financial interests by</i> | ● | ● |
|--------|---|---|---|

*the required filing deadline in accordance with RSA 15-A:3, I(c), and Lottery should consider sending annual reminders to Council members to remind them of the filing requirements*

<u>Status Key</u>	<u>Status</u>		<u>Count</u>
Resolved	●	●	4
Remediation In Process (Action beyond meeting and discussion)	●	○	3
Unresolved	○	○	0

