

**STATE OF NEW HAMPSHIRE
SWEEPSTAKES COMMISSION**

**MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2002**

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, 2002 and have issued our report thereon dated December 16, 2002.

This management letter, a product of the audit of the New Hampshire Sweepstakes Commission for the year ended June 30, 2002, contains an auditor's report on compliance and on internal control over financial reporting and an auditor's report on management issues. The appendix, included as an attachment to the management letter, provides a summary of the status of observations presented in the fiscal year 2001 management letter 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 has received GFOA certification for its last four CAFRs, and it is believed that this CAFR will also conform to the certificate of achievement program requirements. A copy of the Sweepstakes Commission's 2002 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 16, 2002

**STATE OF NEW HAMPSHIRE
SWEEPSTAKES COMMISSION**

TABLE OF CONTENTS

	<u>PAGE</u>
Letter of Transmittal	i
Auditor’s Report On Compliance And On Internal Control Over Financial Reporting	1
<i>Internal Control Comments</i>	
<i>Reportable Conditions</i>	
1. Accounting Transactions Should Be Thoroughly Reviewed To Ensure Recognition In The Proper Accounting Period.....	3
2. Disaster Recovery Plan Should Be Thoroughly Updated And Tested.....	4
3. Bingo Enforcement Vehicle Costs Should Be Reviewed For Reasonableness.....	6
4. Formal Fraud Deterrence And Detection Program And Fraud Reporting Policy Should Be Established	7
Auditor’s Report On Management Issues	9
<i>Management Issues Comments</i>	
5. Formal Business Plan Should Be Updated	10
6. Advertising Effectiveness Should Be Measured.....	11
7. Purchase Of A Test File Server Should Be Reviewed	13
8. Sweepstakes Commission Should Consider Formally Changing Its Name To “New Hampshire Lottery”	14
9. Criminal Background And Motor Vehicle Record Checks Should Be Performed On All Prospective Employees.....	16
APPENDIX - Current Status Of Prior Audit Findings	17

This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba.

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

To The Fiscal Committee Of The General Court:

We have audited the basic 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, 2002 and have issued our report thereon dated December 16, 2002. Our report refers to the adoption of Statement Nos. 34 and 37 of the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 basic 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 basic 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 the Commission's 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. 4 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 are material weaknesses.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information 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 16, 2002

Internal Control Comments
Reportable Conditions

Observation No. 1 – Accounting Transactions Should Be Thoroughly Reviewed To Ensure Recognition In The Proper Accounting Period

Observation:

The Sweepstakes Commission does not have an adequate review process to ensure that all subsequent period transactions are accurately recorded in the proper accounting period.

We reviewed cash transactions in the month following the fiscal year-end (July 2002) to determine whether activity was recognized in the proper fiscal year and noted the following:

- As of June 30, 2002 the Multi-State Lottery Association (MUSL) owed the Commission \$518,803 for Powerball and Hot Lotto prizes won in New Hampshire during June 2002. The Commission did not recognize an accounts receivable for this amount and as a result erroneously reduced the prize expense in fiscal year 2003 when the amount was received in early July 2002. This error was corrected in the Commission's fiscal year 2002 financial statements.
- As of June 30, 2002 the Commission owed MUSL \$88,815 for Powerball TV Game Show prizes won during June 2002. The Commission paid this amount on July 2, 2002, but did not recognize an accounts payable or the corresponding prize expense in fiscal year 2002. This error was corrected in the Commission's fiscal year 2002 financial statements.
- The Commission received a refund of \$12,166 in July 2002 for retirees' health insurance premiums paid during fiscal year 2002. The Commission did not recognize this amount as an accounts receivable nor reduced retiree benefit expenses for fiscal year 2002.
- The Commission received \$8,800 on July 9, 2002, from the Department Of Administrative Services for surplus equipment that was sold during fiscal year 2002. The Commission did not recognize this amount as an accounts receivable and miscellaneous income in fiscal year 2002.

Without a formal and thorough year-end review process, the Commission significantly increases the risk that certain accounts may be misstated as a result of transactions being recognized in the wrong accounting period. Requiring a year-end review of these transactions is both good accounting practice and ensures that activity is properly recorded.

Recommendation:

The Commission should implement a process of performing a thorough and formal review of subsequent period and end of fiscal year transactions to ensure that they are appropriately recorded and posted to the proper accounting period.

Auditee Response:

We concur. The Commission has implemented a review process for all transactions subsequent to year end.

Observation No. 2 – Disaster Recovery Plan Should Be Thoroughly Updated And Tested

Observation:

In our fiscal year 2001 management letter, we recommended the Sweepstakes Commission update and thoroughly test its disaster recovery plan. While the Commission has updated its disaster recovery plan, the update is incomplete, and the plan has not been adequately tested. An effective plan should allow continuity of future lottery operations with no or minimal interruptions in the event of an unforeseen future event or occurrence.

In our review of the Commission's current disaster recovery plan, we noted the following concerns:

- The plan does not address where an offsite, backup copy of the plan could be quickly obtained by disaster recovery team members in the event of a disaster.
- The plan identifies the Massachusetts Lottery as a backup drawing site, however, there is no formal agreement with Massachusetts, no contact person identified, no directions provided for personnel to get there, no indication of whether or not the machines or balls are compatible for the draws, no procedure in the event a draw could not be held on time, etc.
- The plan does not address an alternate site where prize payments would be made, where check stock would be obtained timely, how the public would be notified, etc.
- The plan does not address how the operations of Bingo and Lucky 7 would be continued, such as communications with charitable organizations of where to submit financial reports, tax payments, and obtain new licenses.
- The plan does not address disaster scenarios that would require greater than twenty-four hours of downtime.

The plan also does not address the performance of periodic testing and documentation of testing results, including assumptions made, outcomes, where improvements or changes need to be made, etc. The extent of the Commission's testing of the plan was to determine that the State's

accounting systems (NHIFS and GHRIS) could be accessed from the Commission's backup site (Attorney General's Office).

Testing of a disaster recovery plan is performed to determine how well the plan works and which portion of the plan needs improvement. Testing of the disaster recovery plan should strive to accomplish the following objectives:

- Verification of the completeness and precision of the disaster recovery plan information,
- Evaluation of the performance of members involved in the exercise,
- Appraisal of the training and awareness of non-disaster recovery team members,
- Evaluation of the coordination between the disaster recovery team and external vendors and suppliers,
- Measurement of the ability and capacity of the backup sites to perform prescribed procedures,
- Assessment of systems and important records retrieval capability, and
- Measurement of the overall performance of the plan (assumptions and outcomes compared).

During every phase of the test, detailed documentation of observations, problems, and resolutions should be maintained. Often this documentation can serve as important historical information that can facilitate actual recovery during a real disaster. Also, the documentation aids in performing detailed analysis of both strengths and weaknesses of the plan.

Recommendation:

The Commission should update its disaster recovery plan to address all significant areas of risk and ensure that it has a thoroughly tested disaster recovery plan in place. During every phase of the test, detailed documentation of observations, problems, and resolutions should be maintained. The disaster recovery plan should include periodic updates and tests, with changes or addendums made where necessary.

Auditee Response:

We concur. The Commission will update the disaster recovery plan and address all areas of concern. The plan will be tested and documentation of this process will be maintained.

Observation No. 3 - Bingo Enforcement Vehicle Costs Should Be Reviewed For Reasonableness

Observation:

Charges for purchase of vehicles used for Bingo enforcement are higher than the actual cost of cars needed, and the control over these charges should be improved.

The Sweepstakes Commission is responsible for the cost of licensing, taxing, and enforcing the laws and rules for Bingo and Lucky 7 games. The Department Of Safety enforces the laws and rules for the Bingo and Lucky 7 games and bills the Commission monthly for the enforcement costs. These costs include payroll and benefits for five Bingo inspectors, equipment and miscellaneous costs. One of the major costs associated with the enforcement of Bingo and Lucky 7 games is the purchase and maintenance of vehicles used by the five Bingo inspectors.

According to Department Of Safety personnel, five cars are assigned from its fleet for use by Bingo inspectors. New cars purchased for the fleet are bought and paid for by the various units that use the cars, but the cost of the cars is not charged based upon a unit's type of vehicles needed or its usage. All units are charged a portion of the annual fleet purchase regardless of whether they need the new vehicles or not. During fiscal years 1998 – 2002, the Commission was billed \$133,130 for purchase of eight vehicles. Four of the eight vehicles were State trooper cars that were not assigned to the Bingo inspectors. Additionally, two of the four State trooper cars, costing \$42,116, were billed by Safety and paid for by the Commission in June 2002 even though, as of December 16, 2002, Safety had not yet received or paid for the vehicles.

Well-established provisions and effective monitoring of Bingo enforcement expenses should ensure that the Commission pays only the actual costs of operating and maintaining the Bingo enforcement division. The Commission should not bear the costs for vehicles of other units. Furthermore, payments should only be made to the Department of Safety for Bingo enforcement costs that have been incurred, not anticipated.

Recommendation:

The Commission should work with the Department Of Safety to establish an agreement to ensure the Commission pays only for the actual costs of purchasing and maintaining the cars used by Bingo inspectors. The Commission should then monitor all billings to ensure that costs are reasonable and the Commission is only charged for actual expenses related to Bingo enforcement.

Auditee Response:

We concur and will review this process with the Department of Safety. The agency does review all billings submitted by Department of Safety, documentation is always attached from the department detailing the charges to the Commission. The Commission believes the day to day operations and the associated budget of the Department of Safety's Gaming Enforcement

Division is best managed by the Department of Safety. The Department of Safety inserts their budget request for their Gaming Enforcement Unit directly into the Sweepstakes bingo budget with no input from the Commission.

Department of Safety Response:

The employees that are assigned to perform Bingo and Lucky 7 enforcement are employees of the Division of State Police. The general policy of the Division of State Police is to turn over 1/3 of its fleet every year. By purchasing in bulk, the Division many times achieves a bigger discount price per vehicle. Normally the bulk purchase includes a variety of models of cars, such as State Trooper marked cruisers, non-police cars, etc. which are charged to all various accounts and are assigned to Troops and Units as needed from the available fleet, including Gaming Enforcement. Assigning Gaming Enforcement vehicles from the available State Police fleet further permits the Division to provide vehicles of like kind when a Gaming Enforcement vehicle is either down for service and/or been involved in an accident requiring weeks of down time while the vehicle is repaired or even surplus. Repair and service is of particular concern since Gaming Enforcement Officers work nights and weekends when the Department of Safety Automotive services are not available. The particular time frame of 1998-2002 showed mostly State Trooper cars on the orders and only a few non-police cars. If it is the recommendation that the State Police manage the Gaming Enforcement fleet separately from the rest of the State Police fleet, then a closer watch will be placed on future orders to assure that a separate order is placed for Gaming vehicles.

As to the billing of Safety to Sweepstakes Commission in June 2002 when the vehicles were not received until December 2002, the cars were ordered and encumbered in FY 2002. The purchase order was carried forward into FY 2003. In order to ensure that it would be covered by FY 2002 funding, the bill was rendered to Sweepstakes before receiving the cars. If an Exhibit A had been done by Sweepstakes to encumber the FY 2002 funds, then this would not have occurred.

Observation No. 4 – Formal Fraud Deterrence And Detection Program And Fraud Reporting Policy Should Be Established

Observation:

The Sweepstakes Commission does not have formal fraud deterrence, detection, and reporting programs. The dependency on a high level of consumer confidence in the integrity of the Commission's operations indicates a need for a formal fraud deterrence and detection program. The loss of consumer confidence in the integrity of the games offered by the Commission could significantly impact sales and the amount distributed to education.

The principal mechanism for deterring and detecting fraud is the establishment and operation of effective controls. An integral factor of an entity's control environment is the control consciousness of its people. Management is responsible for establishing controls and monitoring

compliance and is the primary influence on the degree of importance its employees attach to controls. High control consciousness at all levels of an entity is a significant factor in deterring fraud.

The effectiveness of a fraud reporting policy is enhanced when employees have a clear understanding of fraud indicators and what constitutes a fraudulent act. It is important that employees know how to recognize and report suspected fraud and that the reporting process is non-threatening for the reporter and provides reasonable protection of all parties. The lack of a reporting system may delay the uncovering of fraudulent activity.

Recommendation:

The Commission should establish a formal fraud deterrence and detection program. Establishing and continually monitoring the operation of a formal program should help limit the Commission's exposure to fraud.

The Commission should also establish a fraud reporting policy and provide its employees with regular and ongoing fraud awareness training.

Auditee Response:

We concur. The Commission will continue to foster a high degree of consciousness among the employees and document a formal fraud deterrence and detection program.

The Commission will establish a formal fraud reporting policy, this document will detail policies, practices and procedures for employees, retailers, and vendors to follow. The "Quarterly Retailer Newsletter" will have a section dedicated to fraud detection and reporting, and in addition, all retailer training will have a segment on this subject.

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, a department of the State of New Hampshire, as of and for the year ended June 30, 2002 and have issued our report thereon dated December 16, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the New Hampshire Sweepstakes Commission as of and for the year ended June 30, 2002, we noted certain issues related to the operation of the Commission that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations or contracts.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are described in observations No. 5 through No. 9 of this report.

This auditor's report on management issues is intended solely for the information 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 16, 2002

Management Issues Comments

Observation No. 5 – Formal Business Plan Should Be Updated

Observation:

The Sweepstakes Commission's formal business plan needs to be updated to identify current and future goals, and methods to measure progress toward these goals. The Commission's current strategic plan does not address any objectives or goals. The plan was written in November 1998 and has not been updated since. The Commission's operations are generally run on a short-term basis with little formal planning.

The Commission's business plan does not address important aspects of its continuing operations including goals and resources needed to reach those goals. Decisions such as how and when to incorporate new technologies, what products/services (i.e. new lottery games) will be offered, to whom and through what channels products/services will be directed, which joint ventures the Commission should participate or not participate in, when to increase/decrease the amount of advertising to obtain the most effective results, and how operations can remain effectively controlled yet become more efficient, are currently made without the benefit of any formal Commission planning document to assist in making decisions in a coordinated and concerted effort.

A written business plan should identify established goals and objectives that will help to ensure operations are carried out and put into motion as management intended. The long-term business plan should:

- Enhance the Commission's overall ability to efficiently and effectively manage operations,
- Help the Commission achieve its stated goals of maximizing profit and increasing sales,
- Assist Commission management in measuring progress toward goals and to recognize and correct deviations from the plan before conditions become critical,
- Encourage management to look ahead to anticipate and avoid problems before they arise and affect operations,
- Validate ideas and challenge every aspect of the Commission's activities,
- Provide a clear expectation of employees and keep all employees focused on the same goals and objectives,
- Give a better understanding of the industry the Commission is competing in,
- Maintain a chronology of events and financial milestones against which the Commission can compare actual results,
- Identify strengths and weaknesses of the Commission, and
- Address the risks inherent to the Commission.

Recommendation:

The Commission should establish formal procedures for updating its business plan. The business plan should include short-term and long-term goals, how management intends to meet those goals, and methods to measure progress toward those goals. Monitoring progress toward goals is essential; without it, a business plan has little value. The business plan should be periodically reviewed and updated to reflect changing operating conditions.

Auditee Response:

We concur and will update, as feasible under legislative and multi-state guidelines and practices, the current business plan that was expiring in November of 2003.

Observation No. 6 – Advertising Effectiveness Should Be Measured

Observation:

The Sweepstakes Commission does not nor does it require its advertising agency to measure the performance of its advertising efforts. During fiscal year 2002, the Commission spent \$2.9 million on advertising. However, it was unable to explain in any quantitative terms how its advertising expenditures improved sales. While we recognize that advertising is essential to lottery sales, it is common business practice to ensure that advertising efforts are constantly reviewed for effectiveness. We recommended in our 1999 audit that the Commission establish, with assistance from its advertising agency, ways of measuring the effectiveness of the advertising associated with the games. The Commission, in its response, stated that it would, “take it under advisement.” To date, the Commission has not established any performance measures for its advertising of the games.

The Commission’s major games are Instant, Powerball, and Megabucks. Over a five-year period (fiscal years 1998 – 2002) the Commission spent proportionately more on Megabucks than any other game while sales for the game declined \$5.1 million or 30% over the period. By contrast, the Pick3/Pick4 (P3/P4) game experienced a 37.5% increase in sales, from \$7.9 million in 1998 to \$10.9 million in 2002, with much fewer advertising dollars spent. This raises questions such as: had the Commission spent less on Megabucks and more on P3/P4, would P3/P4 sales have increased even more? Would Megabucks have declined at an even faster rate?

The decisions on how advertising dollars are spent directly impacts revenue flows and, as such, the impact of those dollars spent should be better understood.

Without performance measures or cost/benefit analyses, it is impossible to tell whether correct advertising decisions are being made, including whether the appropriate amount is being allocated to individual games or to advertising in total. The Commission does not track advertising dollars by game for its Tri-State games. When asked for advertising costs per game

for Megabucks, P3/P4, and WinCash, the Commission was unable to compile the figures and had to rely on budget information provided by the advertising agency.

Recommendation:

The Commission should establish a methodology to measure the effectiveness of its advertising program. The methodology should allow for the Commission to make more informed decisions for advertising, such as when to advertise, how much to advertise, which games to advertise, etc. Meaningful measures should be established to assist in future advertising decisions.

Auditee Response:

We concur. An internal cost/benefit analysis is already conducted at the lottery by using sales and expense data provided by a number of industry publications. Additionally, independent trade publications perform their own analysis of lotteries' per capita sales and revenue/expense efficiencies. New Hampshire continues to rank at or near the top among states with populations of 3,000,000 or less, and ranks within the top 16 of all 39 lotteries. An external cost/benefit analysis would cost a minimum of \$50,000 and require significant lottery and ad agency resources.

The success of the lottery program and the judicious expenditure of advertising monies is measured by the lottery industry via per capita product sales. Our instant ticket sales are 4th in the world by way of per capita sales and our overall product sales within the United States (37 state lotteries and the District of Columbia), place New Hampshire 14th highest. The lottery reviews these per capita sales results and then compares those numbers to the advertising monies spent by the various state lotteries and the District of Columbia. The results show low advertising expenditure resulting in excellent return on that expenditure.

A traditional cost/benefit analysis would be difficult and expensive to achieve given the number of variables in each lottery product category. Due to a number of variables in regards to advertising and the number of different products on sale, performing one specific to prove a relationship between the amount of advertising money spent on a game and direct results of that money spent is difficult.

For example, within the overall lottery mix, each lottery product appeals to a unique niche or demographic. However, a products sales is affected by the introduction/deletion of another product or change in game design. The mix of products that the lottery offers its players is continually changing to optimize sales. Although the product may remain the same in the eyes of the players, changes may be made by the lottery staff to increase sales. Examples of this would be an implementation of a promotion, a tweak in percentage of prizes on an instant scratch game and/or a two-week flight of television/radio advertising. Another important variable is jackpot amounts. Regardless of the odds of winning a jackpot, the highest prize offered garners the highest sales.

Specific product advertising does not imply that a person viewing that advertising will purchase that product. For example, when Tri-State Megabucks advertises a jackpot amount and the consumer enters a lottery retailer to purchase a ticket, more than likely an instant scratch ticket purchase and/or Powerball purchase is made. Advertising a specific product in some respects advertises the lottery in general. A direct correlation to this is when we have a large Powerball jackpot run we see daily numbers sales go up. The lottery advertised Powerball however, the daily numbers sales increase along with the Powerball sales. One particular product draws the consumer to the retailer and then in turn the consumer makes additional lottery purchases.

Yet another variable is the “impulse” purchase. Instant scratch games are displayed at the cash register similarly as is the candy, gum, magazines, etc. Although money is not spent advertising all of our instant games, via an impulse purchase, sales are completed.

In order to perform the traditional cost/benefit analysis per the LBA’s request, the variables mentioned above would have to be removed or minimized. Specific advertising dollars would be expended for a specific game, ending any type of co-promotion. Advertising would need to be done regardless of the amount of the jackpot. This would end our plan of advertising in high jackpot periods and every jackpot would be treated equally. Baseline sales would need to be determined for each product category. The variables regarding promotional periods, tweaking of prize structures, jackpot amounts, changes in ticket graphics, etc. would need to be minimized to treat each product equally.

The request by the LBA to perform such an analysis would take a significant amount of time, resources, and money. Monetarily, this will cost the lottery an estimated \$50,000 to perform such an analysis. The Commission believes we already meet the intent of the observation and can better use the available resources to market the lottery's products.

LBA Rejoinder:

The auditors do not recommend that a traditional cost/benefit analysis be performed at a cost of \$50,000, but rather that the Commission develop performance measures to gauge the effectiveness of its advertising. The Commission’s marketing staff and advertising vendor should be capable of developing these performance measures which should enable the Commission to make more informed decisions regarding the effectiveness of its advertising expenditures.

Observation No. 7 - Purchase Of A Test File Server Should Be Reviewed

Observation:

The Sweepstakes Commission’s purchase of a test file server in July 1999 has not furthered its operations or provided any benefits, thus far. The Commission purchased a \$12,024 test file server and has been unable to operate this equipment due to various incompatibilities with other components of its network.

The test file server was purchased to function as a testing module for newly developed applications and to test changes to existing applications prior to them being installed on the live production system. It is highly recommended by technology specialists that testing take place in an environment that is separate from the production environment. The Commission continues to conduct testing on the server housing the production environment even though it acquired the test server, presumably to reduce its risk of system interruption.

As evidenced by the lengthy delay in the operation of this hardware, management should have taken action sooner to resolve this matter. Per the Commission's Information Technology Manager, the vendor was brought on-site at Commission headquarters and could not resolve the problem. If the test file server cannot be installed in an effective and efficient manner, in the near future, then an alternative solution should be sought, such as exchanging or returning the equipment to the manufacturer.

Recommendation:

The Commission should evaluate this matter and make a decision as to whether the test file server should still be installed or the equipment should, if possible, be exchanged or returned to the vendor. If it is determined that none of the above options is feasible, then the Commission should acknowledge its loss, without any further waste of resources, and surplus the equipment.

Auditee Response:

We concur. The Commission's management has evaluated the need of this test server and believes this will be an important tool in the operation of the Information Technology Department.

Observation No. 8 – Sweepstakes Commission Should Consider Formally Changing Its Name To “New Hampshire Lottery”

Observation:

In 1963, the Sweepstakes Commission was created under RSA 284:21-a. In the 39 years since then, the Commission has undergone a methodical identity change from the “Sweepstakes Commission” to the “New Hampshire Lottery.” The conversion to New Hampshire Lottery began in the early 1990s and, as of today, very little of the Commission's documents, publications, media advertising, etc. list or mention the word “Sweepstakes” and when it does “Sweepstakes Commission” is relegated to small print. As noted in the list below, nearly everything that is seen by the public identifies the Commission as the “Lottery.” Even the Commission's own administrative rules (SW 101.03) were modified in 1997 to allow it to call itself the “New Hampshire Lottery.”

As noted below, the Commission widely uses the word “Lottery” in its current operations:

- The granite sign outside the front of the current headquarters says “Lottery,”
- The logo on the field representatives’ vans says “Lottery,”
- Commission’s letterhead and business cards are titled “Lottery,”
- Instant tickets contain the heading “New Hampshire Lottery” on the front,
- The front of the online tickets says “Lottery” while in smaller print on the back: “NH Sweepstakes Commission,”
- The Commission’s prize checks state “LOTTERY” in bold print,
- The Commission’s website refers to the agency as the “Lottery” and the website address is www.nhlottery.org,
- The Commission’s automated answering system that responds when a call is placed states; “Thank you for calling the NH Lottery,”
- Employees frequently answer the phone by referring to the Commission as the “NH Lottery,”
- The Commission’s comprehensive annual financial report for fiscal year 2002 prominently states in big letters: “New Hampshire Lottery” while “New Hampshire Sweepstakes Commission” is on the cover in very small print at the bottom.

When asked why the name change occurred, agency personnel stated that they wanted to disassociate themselves from the Publishers Clearing House types of sweepstakes. Currently there are 37 states with lotteries and only New Hampshire is called a “Sweepstakes” commission.

Recommendation:

The Commission should seek legislative action to amend statute to officially change the name of the organization.

Auditee Response:

We concur if the change does not impose financial cost or require significant resources.

The Commission’s organization rule number Sw 101.03 (a) states “The Sweepstakes Commission oversees the operation of the Granite States Lottery, also known as the New Hampshire Lottery.” This has been an evolving process over 39 years since the legislation creating the “Sweepstakes Commission” was enacted into law.

The Commission will review the estimated cost in changing the law and all administrative rules before making a final decision.

Observation No. 9 – Criminal Background And Motor Vehicle Record Checks Should Be Performed On All Prospective Employees

Observation:

The Sweepstakes Commission does not request criminal background or motor vehicle record checks on prospective employees. The integrity of Commission employees plays a large part in the public's confidence in the Commission and, as such, the Commission should be vigilant when hiring new employees.

Background checks should consist of requesting prospective employees provide a copy of a criminal record check from the Department Of Safety – Division Of State Police Criminal Records. Motor vehicle record checks for field representatives responsible for driving Commission vehicles should consist of obtaining the motor vehicle record from the Department Of Safety – Division of Motor Vehicles and reviewing the record for any significant number of moving traffic violations or accidents.

Performing criminal records checks on prospective employees allows the Commission to better scrutinize its candidates and determine whether the candidates have been truthful on their employment applications.

The Commission maintains 19 vans for the purpose of delivering tickets and promotional materials to retailers and for performing various other duties. Drivers routinely carry thousands of dollars in tickets in the vans. It is essential that employees with good driving records operate these vehicles as it reduces the State's risk of financial loss and poor publicity if an employee, with a poor driving record, was at fault in a serious accident while driving a Sweepstakes Commission van.

Recommendation:

Maintaining public confidence in its integrity is of utmost importance to the Commission. Therefore, the Commission should consider performing criminal background checks on all prospective employees. Additionally, it should also request a copy of the motor vehicle record for each prospective employee who applies for a position that will involve driving.

Auditee Response:

We concur. All prospective employees will be required to complete a criminal records release authorization form (DSSP256). A motor vehicle check will be done on any employee who drives a state vehicle.

APPENDIX

Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 16, 2002, of the observations contained in the management letter of the Sweepstakes Commission for the year ended June 30, 2001. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House, Room 102, Concord, NH 03301.

Internal Control	Status
<i>Reportable Conditions</i>	
1. A Formal Information Technology Policy And Procedures Manual Should Be Developed	● ● ○
2. Disaster Recovery Plan Should Be Updated And Tested Periodically (<i>see current year observation No. 2</i>)	● ○ ○
3. Review And Monitoring Of Instant Ticket Vendor Agreements Should Be Improved	● ● ●
4. Provisions For Unclaimed MUSL Prizes Should Be Made In Determining Unclaimed Prize Liability	● ● ●
5. Revolving Fund Reconciliation Should Be Improved	● ● ●
 State Compliance	
6. Information Technology Plan Should Be Submitted Timely	● ● ●
 Management Issues	
7. GASB 34 Implementation Effort Should Be Coordinated With The Bureau Of Financial Reporting	● ● ●
8. Sweepstakes Employees Should Be Prohibited From Playing Lottery Games	● ● ●
9. Tri-State Wind-up Provisions Should Be Formally Established	● ● ○
10. Liquor Commission Incentive Payment Policy Should Be Revised	● ● ●
11. Excess Funds Should Be Transferred From Powerball Unreserved Prize Fund	● ● ○
12. Prohibition On Future Employment Statute Should Be Updated	● ● ○

Status Key

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

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