

**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION**

**MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2024**



MICHAEL W. KANE, MPA
Legislative Budget Assistant
(603) 271-3161

CHRISTOPHER M. SHEA, MPA
Deputy Legislative Budget Assistant
(603) 271-3161

State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT
State House, Room 102
Concord, New Hampshire 03301

CHRISTINE L. YOUNG, CPA
Director, Audit Division
(603) 271-2785

To The Fiscal Committee Of The General Court:

We have audited the financial statements of the New Hampshire Lottery Commission as of and for the fiscal year ended June 30, 2024 and have issued our report thereon dated December 23, 2024.

This management letter, a byproduct of the audit of the New Hampshire Lottery Commission for the fiscal year ended June 30, 2024, contains our 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*, and related audit findings. The current status of prior audit findings, beginning on page 17, provides a summary of the status of observations presented in the fiscal year 2023 and fiscal year 2022 New Hampshire Lottery Commission management letters.

The New Hampshire Lottery Commission 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 New Hampshire Lottery Commission received GFOA certification for its 2023 ACFR, and it is believed that the 2024 ACFR conforms to the certificate of achievement program requirements. A copy of the New Hampshire Lottery Commission's 2024 ACFR can be obtained from the New Hampshire Lottery Commission, 14 Integra Drive, Concord, NH 03301. The New Hampshire Lottery Commission 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 23, 2024

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**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION
2024 MANAGEMENT LETTER**

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ABBREVIATIONS USED

ACFR	Annual Comprehensive Financial Report
BOS	Back Office System
CFO	Chief Financial Officer
Council	Council for Responsible Gambling
GAAP	Generally Accepted Accounting Principles
GFOA	Government Finance Officers Association
HHR	Historical Horse Racing
Lottery	New Hampshire Lottery Commission
MMJ	Mega Money Jackpot
MUSL	Multi-State Lottery Association
SOC	System and Organization Controls
Tri-State	Tri-State Lotto Commission



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Director, Audit Division
(603) 271-2785

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 which comprise the Statement of Net Position as of June 30, 2024 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 New Hampshire Lottery Commission's basic financial statements, and have issued our report thereon dated December 23, 2024.

Report On Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the New Hampshire Lottery Commission'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 New Hampshire Lottery Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the New Hampshire Lottery Commission'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 identified certain deficiencies in internal control, described in Observations No. 1 through No. 4, that we consider to be significant deficiencies.

Report On Compliance And Other Matters

As part of obtaining reasonable assurance about whether the New Hampshire Lottery Commission'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 5 and No. 6.

New Hampshire Lottery Commission's Response To Findings

Government Auditing Standards requires the auditor to perform limited procedures on the New Hampshire Lottery Commission's response to the findings identified in our audit and described in the accompanying observations. The New Hampshire Lottery Commission's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 New Hampshire Lottery Commission'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 New Hampshire Lottery Commission'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 23, 2024

**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION**

RECOMMENDATION SUMMARY

Observation Number	Page	Legislative Action May Be Required	Recommendations	Agency Response
1	5	No	Mitigate the risk of reliance on one key employee for financial accounting and reporting activities. Expand accounting and reporting staff and ensure they have sufficient resources. Continue to document policies and procedures for significant activities. Ensure policies and procedures provide sufficient detail to allow for an appropriate review and approval of journal entries and control activities. Policies and procedures should be fully vetted and approved by management.	Concur
2	7	No	Perform an analysis to gain a thorough understanding of the Mega Money Jackpot (MMJ) games process. Determine the appropriate accounting treatment for MMJ games activity and ensure this activity is properly presented in Lottery's financial statements. Develop policies and procedures for the MMJ games accounting process and ensure the policies are approved by management.	Concur
3	9	Yes	Determine whether it is appropriate to continue to perform the financial accounting and reporting functions of Tri-State Lotto. If Lottery continues in this role, take steps to mitigate potential segregation of duties concerns. Also seek to amend RSA 287-F:9, V, if the timeframe for submitting required payments to the Tri-State Lotto prize and operating expense pools is unreasonable.	Concur In Part
4	11	No	Establish management-approved policies and procedures for prize revolving fund reconciliations and the check void and reissue process. Policies and procedures should be made available to responsible	Concur

Observation Number	Page	Legislative Action May Be Required	Recommendations	Agency Response
			staff, staff should be trained, and a periodic review should be performed to ensure established control processes are in place and operating as intended.	
5	14	Yes	Evaluate whether the Council for Responsible Gambling's administrative attachment to Lottery conflicts with the Council's statutory duties. Request a statutory revision if Lottery determines there is a conflict. The Legislature should consider establishing the detailed terms and conditions of the relationship between Lottery and the Council in statute or administrative rule to ensure the Council's statutory duties are fulfilled.	Concur
6	15	No	Document existing processes for monitoring vendor compliance with contract terms, including the collection of required insurance certificates. Review the policies and procedures with responsible staff. Document quarterly compliance memos, ensure timely completion, and management review for assessment of liquidated damages. Collect insurance certificates for all significant vendors and review for compliance with contract requirements.	Concur

INTERNAL CONTROL COMMENTS
SIGNIFICANT DEFICIENCIES

Observation No. 1

Expand Financial Accounting And Reporting Staff

Staffing levels at the New Hampshire Lottery Commission (Lottery) were not sufficient to support efficient and effective financial accounting and reporting activities during fiscal year 2024.

Lottery operations have expanded significantly over the past several years, with the legalization of sports betting in 2019 and historical horse racing in 2021. Operations also expanded with the addition of multi-jurisdictional iLottery games and the assumption of Tri-State Lotto financial accounting and reporting responsibilities during fiscal year 2024. Although the Lottery's financial accounting and reporting responsibilities have increased, its staffing levels have remained essentially the same, impacting Lottery's ability to maintain a strong and effective control environment.

During fiscal year 2024, Lottery relied almost entirely on the financial accounting and reporting expertise of the Chief Financial Officer (CFO) due to employee turnover and several vacant positions. The CFO was responsible for preparing and/or reviewing monthly reconciliations, monthly and year-end adjusting journal entries, as well as preparing interim monthly financial statements and compiling Lottery's Annual Comprehensive Financial Report (ACFR).

By relying heavily on the institutional knowledge, expertise, and performance of one key employee, Lottery accepted significant risk in its financial accounting and reporting operations in the event of unplanned employee turnover or prolonged absences. This risk was exacerbated by a lack of formally documented policies and procedures supporting all significant aspects of its financial operations.

While Lottery made progress in documenting some of its more complex processes, such as those related to developing the estimate for unclaimed prize liability and certain monthly reconciliations, other processes which involved the processing of year-end and adjusting journal entries and compilation of the ACFR remain undocumented. Additionally, as further discussed in Observation No. 2, Lottery did not develop policies and procedures covering the financial accounting and reporting processes for its participation in multijurisdictional iLottery games.

Although the CFO has been with the Lottery for seven years, is experienced and knowledgeable in duties of the CFO position, and is committed to accurate and efficient financial reporting, the audit identified several instances where accurate and efficient financial accounting and reporting were impacted by a lack of sufficient resources and documented policies and procedures. These included, but were not limited, to the following:

1. The year-end accounts receivable reconciliation was completed using the incorrect sales-week data, resulting in an unidentified variance of approximately \$121,000. The variance went unrecognized by Lottery management and, therefore, was not further investigated.

Significant Deficiencies

While the noted variance was not significant in amount relative to Lottery's fiscal year 2024 financial statements, ineffective reconciliations in future years could have a more significant impact.

2. Lottery's prize revolving fund account reconciliations, while completed, went unreviewed and unapproved by management for the entirety of fiscal year 2024. The prize revolving fund is a separate bank account used to make prize payments to claimants for winning tickets. Payments to winners are made from the prize revolving fund by check, and the account is reimbursed approximately weekly via transfer from Lottery's pooled cash. While the June 30, 2024 reconciliation identified a variance of approximately \$25,000 which was likely a result of timing differences, the variance went uninvestigated, and the reconciliation had not been finalized or reviewed by management as of the December 2024 auditor's opinion date.
3. Joint Venture Irregularities:
 - a. Reconciliations of Tri-State Lotto financial data were not consistently performed during the audit period and, thus, failed to identify inconsistencies between amounts due to NH Lottery from Tri-State Lotto and amounts expected, as calculated by Lottery.
 - b. Required weekly Tri-State Lotto prize and operating pool payments totaling approximately \$486,000 were submitted to the wrong vendor for three weeks before being detected and corrected.
 - c. All ten Tri-State Lotto operating and prize pool payments selected for review were paid late, outside of the one-week post-draw timeframe specified in statute.
4. Documentation of a key control to reconcile checks issued from the prize revolving fund was not retained. The control was performed by comparing amounts reported via terminal reports, the Back Office System check register, and confirming with the vendor. While Lottery reports that the control continued to be in place during fiscal year 2024, evidence of its performance was not maintained once the request for reimbursement to the prize revolving fund was completed. Observation No. 4 includes further discussion of weaknesses noted in Lottery's prize claim payment process.
5. Numerous adjusting entries were required to be posted at fiscal-year end to correct for errors and other inaccuracies that occurred throughout the year.

A similar comment relative to the lack of comprehensive policies and procedures was noted during our fiscal year 2021 audit of the Lottery Commission.

Recommendation:

We recommend the Lottery Commission:

- **take steps to mitigate the risk of reliance on the performance of one key employee for all financial accounting and reporting activities. As the scope and complexity of Lottery operations and Investigation and Compliance Division activities continue to increase, Lottery should expand its financial accounting and reporting staff. Lottery should also ensure staff has sufficient resources to accurately implement new, and effectively maintain existing, accounting and financial reporting systems and standards;**
- **continue efforts to formally document policies and procedures addressing significant areas of its financial accounting reporting activities including, but not limited to: key prize claim and revolving fund account controls, monthly account reconciliations, the preparation and review of monthly estimates, adjusting entries, and year-end accruals, as well as the Annual Comprehensive Financial Report compilation and review process; and**
- **ensure policies and procedures provide sufficient detail to allow for an appropriate review and approval of journal entries - by someone other than the preparer - to mitigate any potential segregation of duties risks, and control activities, such as account reconciliations. Policies and procedures should be detailed enough to prevent significant disruption to operations upon the departure or absences of key employees and should be fully vetted and approved by management.**

Auditee Response:

Lottery concurs. Staffing and turnover have proved to be a major challenge over the last two years. Current labor grades for accounting personnel are hurdles that can make it difficult to fill positions and retain staff. A Controller position would prove to be a great asset to the agency and would protect the Lottery in the future.

Observation No. 2

Financial Reporting Of Multijurisdictional iLottery Games Should Be Evaluated

Lottery did not complete a comprehensive analysis to determine the proper accounting treatment for revenues and prize accruals associated with its participation in multijurisdictional iLottery games.

In April 2024, Lottery amended its contract with an iLottery gaming vendor to begin participating in multijurisdictional games, commonly referred to as Mega Money Jackpot (MMJ) games, via its iLottery platform. The MMJ games allow players in New Hampshire to participate in jackpot style games alongside players from other lottery jurisdictions. MMJ games provide for higher jackpots, as contributions from multiple lottery jurisdictions combine to grow the available jackpot prizes.

Participation in MMJ games required Lottery to set aside a percentage of MMJ sales to fund the jackpots, referred to as the required progressive contribution. These progressive contributions cause the jackpots to grow and, following a jackpot win, each participating lottery is required to

contribute its share of the jackpot win to the gaming vendor based on its pro-rata share of game sales. The pro-rata amount owed could ultimately be more or less than the initially set required progressive contributions.

The MMJ game vendor is responsible for managing the games' accounting and reporting functions, including the tracking of all minor and mega jackpot winners and each participant's required progressive prize contributions, as well as identifying each participant's share of the accrued progressive prizes. Monthly, the vendor issues a settlement statement to each participant, to collect or remit each participant lottery's liability balance. Amounts due to be collected are calculated by subtracting the participant's share of the jackpot prize won based on its pro rata share of sales from its accumulated required progressive prize contributions. The vendor is then responsible for collecting amounts due from, and paying sums owed to, the participating lotteries as specified in the settlement statement.

While settlement reports are provided monthly detailing each lottery's required progressive jackpot contributions, Lottery does not remit its required progressive prize contribution until after a jackpot has been won. At June 30, 2024, New Hampshire's required progressive contribution balance towards future jackpot winnings for multijurisdictional iLottery games totaled approximately \$500,000. The required progressive contributions were not reflected in Lottery's financial statements, nor were they disclosed in the notes to the financial statements, potentially overstating revenues and understating liabilities reported in Lottery's financial statements as of and for the fiscal year ended June 30, 2024.

By not ensuring funds are appropriately set aside to cover required progressive prize contributions, there is an increased risk that funds may not be available to pay Lottery's required pro-rata share of the MMJ game prizes if a large jackpot is won. Auditors noted a jackpot was won shortly after fiscal year end, in July 2024, and Lottery paid approximately \$644,000 to the MMJ vendor to cover its portion of the jackpot prize.

Generally Accepted Accounting Principles (GAAP) require expenses to be reported in the same accounting period as the revenues they helped to generate. In accordance with GAAP, it is likely Lottery needed to report a liability on its Statement of Net Position at June 30, 2024 to recognize amounts owed for prizes paid in the months following fiscal year end.

Recommendation:

We recommend the Lottery Commission:

- **perform a comprehensive analysis to gain a thorough understanding of the MMJ games process;**
- **determine the appropriate accounting treatment of MMJ games activity and ensure this activity is properly presented in Lottery's financial statements in accordance with GAAP; and**
- **develop policies and procedures describing the accounting process for MMJ games. The procedures should provide sufficient detail to allow an individual who is**

unfamiliar with the process to perform the necessary tasks. Policies should be formally documented and approved by the appropriate level of management.

Auditee Response:

Lottery concurs. As noted, the multijurisdictional games began towards the end of fiscal year 2024. The Lottery is working towards developing policies on how to verify sales and accrue future prize liabilities.

Observation No. 3

Tri-State Lotto Commission Responsibilities Should Be Appropriately Segregated

Lottery did not appropriately segregate its financial accounting and reporting responsibilities for the Tri-State Lotto Commission (Tri-State Lotto) from the financial accounting and reporting responsibilities of the New Hampshire Lottery Commission (Lottery).

Tri-State Lotto is a joint venture between New Hampshire, Vermont, and Maine, and offers daily and weekly draw games, including the Megabucks and daily Pick 3 and Pick 4. The administrative costs of Tri-State Lotto are shared by the three lotteries. Historically, Lottery was responsible for conducting the game drawings, while Vermont was responsible for Tri-State Lotto's financial accounting and reporting activity. Beginning in fiscal year 2024, Lottery took over the Tri-State Lotto financial operations from Vermont, and the responsibilities for the Tri-State Lotto drawings were outsourced to the Multi-State Lottery Association (MUSL) in July 2024.

As a result of assuming the financial operations of the Tri-State Lotto, the Lottery CFO was responsible for the financial accounting and reporting functions of both entities including, but not limited to, the following incompatible functions:

1. Preparation of year-end financial statements for both entities, including the reporting of receivables and payables between entities.
2. Recording of transactions between both entities. Lottery makes weekly payments to the Tri-State Lotto prize and operating pools. The Lottery CFO is responsible for reviewing Lottery payments sent to Tri-State Lotto, and receiving and recording those payments for Tri-State Lotto. The following issues relating to Lottery payments to Tri-State Lotto were noted during the audit:
 - a. Required weekly Tri-State Lotto prize and operating pool payments totaling approximately \$486,000 were submitted to the wrong vendor over a period of three weeks before being identified. The funds were subsequently recouped by the Tri-State Lotto.
 - b. A review of invoices for payments made by Lottery to the Tri-State Lotto prize and operating expense pools revealed that all ten payments selected for review were

made late. Payments ranged between two and 17 days late, falling outside of the one-week post draw timeline required by NH RSA 287-F:9, V.

3. Reviewing and approving Lottery's monthly reconciliation of financial data in its Back Office System and NH FIRST to amounts reported in Tri-State Lotto's monthly financial statements. Historically, Lottery performed monthly reconciliations of its financial data to related data reported by its Tri-State Lotto Commission joint venture. The reconciliations supported that the Tri-State Lotto-related restricted deposits were accurately reflected in Lottery's year-end financial statements. The reconciliations went unperformed for the entirety of fiscal year 2024. The June 30, 2024 reconciliation was not completed until late November 2024, subsequent to the issuance of the unaudited draft of Lottery's fiscal year 2024 financial statements, and the audited Tri-State Lotto financial statements. Once completed, the June 2024 reconciliation identified an unexplained variance of approximately \$158,000 in the amount reported as due to Lottery from Tri-State Lotto and the amount expected, as calculated by Lottery.

Failing to properly segregate Tri-State Lotto financial accounting and reporting responsibilities from Lottery's existing financial accounting and reporting responsibilities increases the risk that errors or frauds could occur and go undetected and uncorrected by management during the normal course of business.

In addition to the improper segregation of duties concerns noted, Lottery reported it had not recouped costs from Tri-State Lotto relating to the additional time spent by Lottery staff on Tri-State Lotto financial accounting and reporting activities, nor had it performed an analysis of the amount of time spent on these activities, and the resulting impact to Lottery financial operations.

Recommendation:

The Lottery Commission should determine whether it is appropriate to continue to perform the financial accounting and reporting functions of Tri-State Lotto.

If the Lottery Commission decides to continue in its role as the financial accounting and reporting administrator for Tri-State Lotto, it should take appropriate steps to mitigate potential segregation of duties concerns including, but not limited to, the following:

- **segregate Tri-State Lotto financial accounting and reporting responsibilities from staff who are responsible for completing those same duties for Lottery;**
- **complete timely and comprehensive reconciliations of New Hampshire-related financial data as reported by Tri-State Lotto to Lottery's supporting systems. The reconciliations should be prepared by employees independent of the Tri-State Lotto financial accounting and reporting process, and reviewed by the appropriate level of management; and**
- **document the processes to segregate Tri-State Lotto financial accounting and reporting duties from those of Lottery. Policies should be formally documented and at the appropriate level of detail to allow someone independent of, or unfamiliar with, the process to be able to complete the required tasks or perform an adequate review**

of the required tasks. The policies and procedures should be fully documented and approved by the appropriate level of management.

The Lottery Commission should also seek to amend RSA 287-F:9, V, if the timeframe for submitting required payments is deemed unreasonable.

Auditee Response:

Lottery concurs in part. While the Lottery does try to segregate duties, this will not be fully possible. The Lottery will revisit the issue with the Tri-State Lotto Commission for a potential solution.

Observation No. 4

Prize Claim Payment Controls Should Be Strengthened

Certain internal controls established by Lottery to ensure checks are issued only for valid prize claims and to ensure the prize revolving fund is accurately reimbursed were not operating as intended during fiscal year 2024.

The following weaknesses were noted relative to Lottery's prize claim payment process:

1. Daily Reconciliation of Prize Claim Checks Issued not Retained

The Lottery's prize revolving fund, maintained at a local bank, was used to issue checks to claimants who won non-jackpot prizes in the amount of \$600 or more while playing on-line and instant games, and for iLottery prize winnings of \$10,000 or more. Upon request by Lottery, the State Treasurer reimbursed the revolving fund for the previous week's disbursements from the fund to maintain an account balance of \$2,000,000.

Lottery established several internal control procedures to ensure checks written from the prize revolving fund were for valid prize claims, and that the fund was accurately reimbursed as verified by the daily, weekly, and monthly reconciliation procedures performed. One long-standing procedure involved reconciling prize claims via Lottery's Back Office System (BOS) terminal reports to checks issued per the BOS check register, and confirming the amounts noted with the gaming vendor on a daily basis. This procedure confirmed that only checks for valid prize claims were issued from the revolving fund. Lottery also performed a weekly reconciliation to ensure reimbursements to the prize revolving fund agreed to the checks written per the BOS. Historically, these internal control processes were routinely tested by the auditors without exception.

Auditors selected four daily reconciliations for review as part of a prize expense and control testing procedure. Documentation evidencing the performance of the daily reconciliations was not available for any of the four dates selected for review. Following further inquiry with Lottery, it was determined that, while staff reports the control process is in place and continues to be performed documentation supporting the performance of the daily reconciliation procedure was not retained once the weekly reimbursement to the revolving

fund was processed. A Lottery employee was new to the position and was primarily responsible for the daily reconciliation process. The employee was not aware the BOS reports needed to be retained to evidence performance of the control procedure.

While the weekly and monthly reconciliation procedures mitigated the risk of issuing erroneous or fraudulent checks from the revolving fund, they did not include a reconciliation of fund activity to the BOS terminal reports to ensure only checks for valid claims were issued. Additionally, as discussed in Observation No. 1, the revolving fund monthly reconciliations while completed, went unreviewed and unapproved by management for the entirety of fiscal year 2024, with the June 30, 2024 reconciliation identifying a \$25,000 unexplained variance. While the variance is likely the result of timing differences, it was not fully investigated as of the December 2024 auditor's opinion date.

2. Lack of Formally Documented Policies and Procedures for Check Voids and Reissues

Review of the weekly BOS reconciliation for the period of August 27, 2023 – September 2, 2023 identified multiple manual adjustments to the BOS check register, impacting the amount to be reimbursed to the prize revolving fund and requiring auditors to obtain supporting documentation to confirm the manual adjustments were appropriate. One manual adjustment in the amount of \$2,920 was noted as an “over-reimbursement” increasing the amount to be reimbursed to the prize revolving fund.

Lottery reported a claimant brought in an unaltered but “expired” prize check to Lottery headquarters, requesting Lottery to void and reissue the check. The check was issued in May 2020, had since expired, and the claimant reportedly was unable to cash it. Lottery voided the original check and reissued the claimant a new check, without first checking the bank account to confirm whether the check had cleared the prize revolving fund account. Following the check's reissuance, Lottery discovered the original check had already been cashed via mobile deposit to the claimant's bank account.

Lottery reported a police investigation was opened, and the duplicate payment appeared to be a mistake rather than an intentional attempt to defraud the Lottery. The claimant subsequently repaid the funds to Lottery. Management reported the duplicate claim payment resulted from a lack of training for new staff responsible for processing claims. Lottery did not have a formal policy and procedure for voiding and reissuing checks.

Neglecting to maintain formal policies and procedures and adequately train new staff in the daily prize claims processes increased the risk that prize claim checks may be processed inaccurately or issued erroneously without being timely detected and corrected.

Recommendation:

We recommend the Lottery Commission:

- **define the established control processes for daily, weekly, and monthly prize revolving fund reconciliations in formally documented, management-approved policies and procedures. Policies and procedures should include document retention periods and describe the purpose of the noted control procedures;**

- **establish formally documented, management-approved policies and procedures covering the check void and reissue process. The process should include steps to ensure prize claim checks have not already been cashed prior to their reissuance;**
- **ensure policies and procedures are made available to all staff responsible for administering prize revolving fund activities. The responsible staff members should be appropriately trained in, and understand the purpose of, the documented procedures; and**
- **perform a periodic review to ensure established control processes are in place and operating as intended.**

Auditee Response:

Lottery concurs. While an updated policy for handling void/reissues has been in place, it has not been formally documented.

COMPLIANCE COMMENTS

Observation No. 5

Council For Responsible Gambling Should Fulfill Its Statutory Duties

The Council for Responsible Gambling (Council) did not meet during fiscal year 2024 and, therefore, does not appear to be fulfilling its statutory duties.

The Council was established under Chapter 215:5, Laws of 2019, alongside legislation legalizing sports betting in New Hampshire, and is tasked with promoting education, prevention, and treatment of problem gambling. The Council is administratively attached to the Lottery Commission (Lottery) and is funded by Lottery in an amount not to exceed \$250,000 per fiscal year. The Council consists of five members who serve a three-year term, or until a successor is appointed.

A review of financial interest statement filings relating to Lottery and the administratively attached Council revealed that three of five individuals appointed to the Council did not file their statements of financial interests with the Secretary of State for calendar year 2024, as required by RSA 15-A. Further inquiry with Lottery's Chief Financial Officer revealed that, although Lottery set aside the required funds for Council use, the Council neither met nor incurred any expenses during fiscal year 2024. Additionally, the Council did not file a biennial report with the governor and executive council as required by RSA 338-B:6.

Lottery reported it was aware of the Council's lack of activity during the audit period. While the Council is administratively attached to Lottery, Lottery reported it does not have the authority to direct the Council's activities or nominate potential members. Additionally, the Council does not serve in an advisory capacity to Lottery.

Recommendation:

We recommend the Lottery Commission evaluate whether the Council's administrative attachment to Lottery conflicts with the Council's statutory duties. If Lottery deems the Council's administrative attachment to be a conflict, Lottery should request a statutory revision.

We also recommend the Legislature consider establishing the detailed terms and conditions of the relationship between Lottery and the Council in statute or alternatively requiring Lottery and the Council adopt rules formalizing their relationship to ensure the Council's statutory duties are fulfilled.

Auditee Response:

Lottery concurs. We are currently working on a legislative fix.

Observation No. 6

Strengthen Process For Monitoring Vendor Compliance

Lottery's contract monitoring controls were not operating as intended during fiscal year 2024.

The following weaknesses in Lottery's vendor contract monitoring processes were identified during the audit:

1. Lack of Review for Required Insurance Certificates

Lottery's contracts required its vendors to maintain certain levels of insurance coverage to mitigate against potential losses should unforeseen events, errors, or frauds occur. Lottery obtained copies of insurance certificates to evidence vendor compliance with contracted insurance requirements.

A review of vendor insurance certificates for six of Lottery's most significant contracts covering fiscal year 2024 activities revealed one of six, or 17%, of Lottery's vendors did not have current insurance certificates on file to evidence compliance with contract provisions. Failing to ensure vendors met contractually obligated insurance thresholds potentially exposed Lottery to financial liability in the event the vendors caused financial damages exceeding insurance limits.

2. Monitoring for Assessment of Liquidated Damages

Lottery's vendor contracts included provisions for the assessment of liquidated damages in the event services were not provided in accordance with the terms of the contracts. Lottery established a process to ensure vendors were appropriately monitored and assessed for liquidated damages. On a quarterly basis, employees who oversaw vendor contract services were required to prepare a memo or email detailing the contractor's compliance with contract terms and submit it to the Administrative Assistant or Chief Compliance Officer for potential assessment of liquidated damages.

Auditors reviewed quarterly vendor compliance memos for three of Lottery's most significant vendors. While Lottery provided the memos for all three vendors, the memos relating to one vendor were dated subsequent to the auditor's request in December 2024, almost six months following the end of the audit period. As a result, it is unclear if the vendor was adequately monitored for contract compliance during fiscal year 2024.

Consistent monitoring of vendor contracts helps to maintain control over contracting and ensure compliance and performance issues are addressed as they arise. Neglecting to adequately monitor compliance with contract provisions increases the risk that disruptions to contracted services may occur and adversely impact Lottery's financial operations.

Recommendation:

We recommend the Lottery Commission:

- **formally document existing processes for monitoring vendor compliance with contract terms, including documenting the process for the collection of required insurance certificates. The policies and procedures should be reviewed with all responsible staff to ensure they are aware of, and understand their roles and responsibilities in, the monitoring process;**
- **formally document quarterly compliance memos and ensure timely completion. The memos should be reviewed by the appropriate level of management for assessment of liquidated damages; and**
- **collect insurance certificates for all significant vendors and review the certificates for compliance with contract requirements.**

Auditee Response:

Lottery concurs. The Lottery will implement processes for both the timely collection and review of quarterly compliance memos and the collection of insurance certificates from significant vendors. Both items will be collected and reviewed by the Chief Compliance Officer to ensure ongoing compliance with contractual terms.

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of December 23, 2024, of the observations contained in the New Hampshire Lottery Commission’s Management Letters for the fiscal years ended June 30, 2023 and 2022. Those reports can be accessed at, and printed from, the Office of Legislative Budget Assistant website: <https://www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx>

2023 Audit Comments Internal Control Comments

		<u>Status</u>	
<u>Significant Deficiencies</u>			
2023-1	<p>Revenue Recognition Control For Historical Horse Racing Revenues Should Be Strengthened</p> <p><i>Consider amending administrative rule Lot 8204.08 Required Reports, Audits and Inspections to include the submission of free play activity. If not deemed feasible, consider whether further mitigating controls are necessary to ensure HHR revenue completeness.</i></p>	●	○
2023-2	<p>Ineligible Player Listings Should Be Complete</p> <p><i>Update ineligible players listings policy to require vendors and partner organizations to provide listings of all employees working in the United States to help ensure completeness in identifying ineligible players.</i></p>	●	●
2023-3	<p>Quarterly Reviews Of User Access Permissions Should Be Evidenced</p> <p><i>Formally document quarterly reviews of user access permissions. Implement procedures to ensure user access is immediately removed for any employees who leave the Lottery Commission or move to a new role where access is no longer required.</i></p>	●	●
2023-4	<p>Formal Approval Process For Retailer Promotional Credits Should Be Developed</p> <p><i>Establish and document a formal management approval control procedure for retailer promotional credits and adjustments, supported by formally documented policies and procedures. The policy should provide for the formal review and approval of retailer promotional credits, by the appropriate level of management.</i></p>	●	●

		<u>Status</u>
<u>State Compliance</u>		
2023-5	<p>Systems And Organization Controls Reports Covering Historical Horse Racing Tote Systems Should Be Obtained As Required By Administrative Rule</p> <p><i>Implement policies and procedures to ensure that all tote system providers operating in the State provide SOC 1, Type 2 reports, as required in administrative rule.</i></p>	<p>● ○</p>
2023-6	<p>Comply With Or Amend Biennial Transfer Limit</p> <p><i>Comply with, or seek to amend, the biennial transfer limits outlined in chapter law, for the biennium ending June 30, 2025. Seek to amend language in future chapter laws governing such transfer limits to ensure the limits remain reasonable and align with current practice.</i></p>	<p>● ○</p>

2022 Audit Comments
Internal Control Comments

<u>Significant Deficiencies</u>		
2022-1	<p>iLottery Revenue Reconciliation Control Should Be Strengthened</p> <p><i>Review 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 existing iLottery revenue reconciliation procedures with a formal, management-approved policy document.</i></p>	<p>● ●</p>
2022-2	<p>Ineligible Players Listings Should Be Updated Routinely</p> <p><i>Implement procedures to ensure the 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.</i></p>	<p>● ●</p>

Compliance Comment

Status

State Compliance

2022-3 **Administrative Rules Should Be Adopted And Statutory Language Clarified** ● ○
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.

Status Key

	<u>Status</u>		<u>Count</u>
Resolved	●	●	5
Remediation In Process (Action beyond meeting and discussion)	●	○	4
Unresolved	○	○	0

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