

**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION**

**MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**



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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, 2025 and have issued our report thereon dated December 19, 2025.

This management letter, a byproduct of the audit of the New Hampshire Lottery Commission for the fiscal year ended June 30, 2025, 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 11, provides a summary of the status of observations presented in the fiscal year 2024 and fiscal year 2023 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 2024 ACFR, and it is believed that the 2025 ACFR conforms to the certificate of achievement program requirements. A copy of the New Hampshire Lottery Commission's 2025 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://gc.nh.gov/lba/auditreports/financialreports.aspx>

Office of Legislative Budget Assistant
Office of Legislative Budget Assistant

December 19, 2025

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**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION
2025 MANAGEMENT LETTER**

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ABBREVIATIONS USED

ACFR	Annual Comprehensive Financial Report
CCO	Chief Compliance Officer
CUEC	Complementary User Entity Controls
DoIT	Department of Information Technology
GFOA	Government Finance Officers Association
GAAP	Generally Accepted Accounting Principles
ISO	Information Security Officer
IT	Information Technology
MMJ	Mega Money Jackpot
NH FIRST	New Hampshire State Government Accounting and Financial Reporting System



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To The Fiscal Committee Of The General Court:

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*

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, 2025 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 19, 2025.

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. 3, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

December 19, 2025

**STATE OF NEW HAMPSHIRE
LOTTERY COMMISSION**

RECOMMENDATION SUMMARY

Observation Number	Page	Legislative Action May Be Required	Recommendations	Agency Response
1	4	No	Continue to formally document policies and procedures for significant financial accounting and reporting processes. The policies and procedures should be fully vetted and approved by management. Continue efforts to fill the newly created comptroller position.	Concur
2	6	No	Comply with formal risk assessment policy, requiring completion and formal documentation of a risk assessment on an annual basis. Review the current business continuity and disaster recovery plan to ensure the plan reflects current practices, and to minimize business disruptions in the event of an unforeseen occurrence. Periodically test the plan to ensure it remains relevant and effective, and employees are practiced in implementing the plan.	Concur
3	8	No	Comply with the <i>Account Level User Access to Vendor Data Systems</i> policy and ensure that accounts that are no longer associated with user employees are disabled in a timely manner. User access permission reviews should be performed timely, and user access should be removed or adjusted as appropriate based on the results of the reviews. Comply with the Department of Information Technology <i>Security Awareness and Training Policy</i> and monitor to ensure that staff members complete the required training modules in a timely manner.	Concur

INTERNAL CONTROL COMMENTS
SIGNIFICANT DEFICIENCIES

Observation No. 1

Formally Document Policies And Procedures For Significant Financial Accounting And Reporting Processes

Lottery has not formally documented its existing policies and procedures for significant areas of its financial accounting and reporting processes. While there are established processes in place covering most areas of Lottery's day-to-day operations and transaction processing, the majority of those processes are not formally documented in the form of written policies and procedures. Additionally, Lottery does not have formal policies and procedures in place covering the more complex areas of its operations, such as the completion of monthly reconciliations, preparation of year-end journal entries related to accruals and estimates, and the compilation of the Annual Comprehensive Financial Report.

Internal control deficiencies in the following areas of operation were noted during the audit, which may have been avoided if formally established policies and procedures had been available to responsible staff and an effective management review process had been in place:

- **Sports Betting Revenues Reconciliation:** Lottery performs a monthly reconciliation of sports betting revenues expected to be received for the month to the amount reported by the vendor as due to Lottery. During fiscal year 2025, the monthly sports betting revenues reconciliation for mobile activity did not reconcile all activity to available supporting documentation. As a result, the revenue expectations developed by Lottery contained formulaic errors which went unrecognized and resulted in inconsistencies in the amount due to Lottery. Inconsistencies were noted in the monthly revenue reconciliations for all four months selected for review by the auditors. The noted inconsistencies were insignificant in amount, both individually and in the aggregate, to Lottery's financial statements. While the noted inconsistencies were not significant, neglecting to perform comprehensive reconciliations using all available data points increases the risk that Lottery may not collect all sports betting revenues due from the vendor and may not identify potential discrepancies in a timely manner.

- **Unclaimed Prize Liability:** Lottery reports a liability for prizes won but not yet claimed, which Lottery is legally obligated to pay, referred to as the unclaimed prize liability. Lottery performs an estimate monthly to determine the amount of the unclaimed liability using various reports from its Back Office System. However, the methodology used to calculate the estimate is not formally documented in sufficient detail to allow it to be consistently performed. During fiscal year 2025, the estimate was performed inconsistently leading to errors in calculations of the unclaimed prize liability and corresponding allowance for doubtful prizes estimate (estimate for the amount of prizes which will never be claimed) resulting in an understatement of the unclaimed prize liability amount reported in Lottery's financial statements of approximately \$1.1 million.

- Prize Revolving Fund Reconciliation: Lottery completes a monthly reconciliation of the prize revolving fund bank account, which is used to pay Lottery prize claims. As reported in the fiscal year 2024 Lottery Commission Management Letter, the prize revolving fund monthly reconciliations went unreviewed and unapproved for the entirety of fiscal year 2024. While the reconciliations appear to have been performed timely during fiscal year 2025, management review continued to be delayed. The June 2025 reconciliation identified a \$10,000 variance and, as of November 2025 at the time of auditor review, the variance had not been further investigated and remained unexplained. While the \$10,000 variance is not significant to Lottery's financial statements, the reconciliation process should be strengthened through the formal documentation of the process in a management-approved policy and procedure.
- Tri-State Reconciliation: Lottery performs a reconciliation of financial activity recorded in its Back Office System and NH FIRST to amounts reported in Tri-State Lotto's monthly financial statements. As reported in the fiscal year 2024 Lottery Commission Management Letter, monthly Tri-State reconciliations went unperformed for the entirety of fiscal year 2024. The reconciliation performed as of June 30, 2024, which was not completed until November 2024, contained an unexplained variance in the amount due to Lottery of \$158,000. The difficulties in completing the monthly Tri-State reconciliations continued into fiscal year 2025, and the June 2025 reconciliation identified an unexplained variance of approximately \$74,000 between the calculated amount due to New Hampshire and the amount due to New Hampshire as reported on the Tri-State Income Statement. The identified variance was not further reviewed or explained. This weakness is further exacerbated by the improper segregation of duties weakness related to Tri-State activities initially identified during the fiscal year 2024 audit.
- Journal Entry Review: Lottery processes various journal entries in NH FIRST throughout the year, including weekly entries to record sales revenues and related expenses, as well as monthly and year-end entries to record accruals and other adjustments. Review of monthly reversing entries, credit entries to expense accounts, and debit entries to revenue accounts revealed several large dollar entries were made to correct errors in processing relatively routine entries, including one entry to correct for the recording of one month's worth of sales and expense activity rather than the standard weekly entries to record sales and expenses. Additionally, entries to correct fiscal 2024 year-end accruals, which were initially posted to the incorrect accounts and not set up to auto-reverse, had to be manually adjusted by Lottery.

The lack of formally documented policies and procedures increases the risk that errors or frauds could occur within Lottery's financial accounting and reporting processes, ultimately leading to inaccurate reporting of its financial position, without being timely detected and corrected by management.

A similar comment was noted during our fiscal year 2024 and fiscal year 2021 audits of the Lottery Commission.

Recommendation:

Lottery should continue to formally document policies and procedures for significant financial accounting and reporting processes including, but not limited to: monthly reconciliations, significant estimates, routine weekly entries to record revenue and expense activity, and year-end accrual and adjusting entries.

The policies and procedures should provide sufficient detail to allow for an appropriate level of review and approval by someone other than the preparer to mitigate any potential segregation of duties risks, and to ensure that significant areas of financial operations can continue without disruption upon the departure or absence of key employees.

The policies and procedures should be fully vetted and approved by management.

Lottery should also continue in its efforts to fill the newly created comptroller position to help mitigate its reliance on the performance of one key employee for the majority of its financial accounting and reporting responsibilities.

Auditee Response:

The Lottery concurs with the observations. While we do have strong procedures for sports betting reconciliations, some errors in reporting were revealed while no understatement of income was accepted or reported. Estimates of instant ticket revenues is a difficult task and it is only an estimate of instant ticket liabilities. All other reporting is completely documented. There were some errors made in the process of posting journal entries during the year to report revenues, but none were discovered during the reconciliation process and corrected. Lottery is seeking to increase staffing, mainly due to the additional revenue streams and complexity of those revenues' streams. While an additional position was approved, the funding did not follow. Lottery plans to move forward with adding accounting positions regardless.

Observation No. 2

Revise And Keep Current Risk Assessment And Disaster Recovery Plan

Lottery has not kept current certain internal control processes and plans that are generally regarded as fundamental to an efficient and effective system of internal controls. During fiscal year 2025, Lottery neither complied with its formal risk assessment policy nor tested its business continuity and disaster recovery plan for critical administrative support and financial reporting activities.

Risk Assessment

Risk assessment is the process of identifying, assessing, and responding to risks related to the achievement of the entity's objectives, and is one of the five generally accepted components of internal control. An effective and documented risk assessment process is an ongoing process that is foundational to the development and implementation of control activities intended to identify and eliminate, mitigate, or otherwise manage identified risks. A formal and well-planned risk assessment process increases the likelihood that the appropriate balance between the cost and

benefit of controls can be understood and become the basis for controls put into operation. As risks change over time due to changes in processes, information technology, and environment, controls intended to mitigate risk may become inefficient and ineffective. Without an ongoing risk assessment process, the identification and response to risk often occurs in a reactive mode, after risk has been realized and a loss is incurred.

While Lottery has an established risk assessment process and historically assesses risks on an annual basis, it did not comply with its policy to perform a risk assessment annually, as no formal risk assessment was performed during fiscal year 2025. As of December 2025, Lottery's most recent risk assessment was performed in December 2023.

Business Continuity And Disaster Recovery Plan

Business continuity plans help to ensure an entity will be able to maintain all areas of its essential operations or be able to resume essential operations as quickly as possible in the event of a crisis or emergency. Disaster recovery plans consist of information technologies and best practices designed to prevent or minimize data loss and disruption of operations resulting from catastrophic events. Disaster recovery planning is a subset of business continuity planning that focuses on recovering information technology infrastructure and systems. Creating a disaster recovery plan involves strategizing, planning, deploying appropriate technology, and continuous planning that focuses on recovering information technology through continuous testing.

As of December 2025, the most recent testing of Lottery's disaster recovery plan, which includes its continuity of operations plan, was completed in June 2023. Additionally, Lottery's disaster recovery plan was outdated, as it did not address Lottery's assumption of Tri-State Lotto operations in July 2023. Without a current business continuity and disaster recovery plan in place, Lottery faces an increased risk it will not be able to properly manage a range of threats to its mission critical objectives.

Recommendation:

Lottery should comply with its formal risk assessment policy, requiring completion and formal documentation of a risk assessment on an annual basis.

Lottery should review its current business continuity and disaster recovery plan to ensure the plan reflects current practices, and to minimize business disruptions in the event of an unforeseen occurrence. The plan should be periodically tested to ensure it remains relevant and effective, and employees are practiced in implementing the plan.

Auditee Response:

The Lottery concurs with this observation. Regarding the annual risk assessment, the agency has already commenced planning to perform an evaluation that includes consideration of fiscal year 2025 and present operations in fiscal year 2026 on a quarterly basis, with the goal of completing that evaluation by the end of calendar year 2026. This will bring the agency up to date and place the Lottery on track for reviews to be completed at the end of each fiscal year going forward. The agency will also update its business continuity and disaster recovery plan to ensure accuracy and

relevance and test that updated plan with a tabletop exercise with agency stakeholders before the end of the calendar year.

Observation No. 3

Ensure Timely Termination Of User Access Permissions And Completion Of Cybersecurity Trainings

Lottery did not effectively monitor certain aspects of its information technology (IT) environment during fiscal year 2025.

The following weaknesses were noted relating to Lottery's monitoring of its IT environment:

1. User Access Permissions: Lottery did not terminate user access permissions to vendor data systems in a timely manner. Lottery's *Account Level User Access to Vendor Data Systems* policy states, "On a quarterly basis, the Agency ISO [Information Security Officer] will review account level access to ensure that only those employees authorized to retain access remain valid. The Agency ISO will document the findings on the *Quarterly Access Control Review* work sheet and submit the findings to the CCO [Chief Compliance Officer]."

Auditor review of the *Quarterly Access Control Review* performed in September 2024 revealed that Lottery identified an employee whose system access should have been revoked, but remained active. The employee subsequently terminated employment with the Lottery Commission in February 2025 but retained an active user-ID to the vendor systems as of December 2025.

Failing to disable user accounts when employees terminate employment or move to a new position where access is no longer required increases the risk that errors or fraud could occur without being detected and corrected in a timely manner.

2. Cybersecurity Trainings: Lottery did not effectively monitor its staff completion of required cybersecurity trainings.

The Department of Information Technology's (DoIT) *Security Awareness and Training Policy* (Policy) requires agency management ensure all users who have authorized access to State information systems complete security awareness and privacy training at least annually to ensure they are aware of their responsibilities regarding information security and privacy. As part of this requirement, the Policy requires agencies to document and monitor information security and privacy awareness training activities, and to retain individual testing records in accordance with State and agency-specific records retention requirements, or as required by other applicable law or regulation.

Lottery relies on employee completion of periodic cybersecurity trainings to satisfy its complementary user entity controls (CUEC) requirements relating to its contract with a third-party servicer for the iLottery platform. The CUECs are processes which Lottery must

implement to ensure the vendor's system operates securely and effectively and, consequently, requires Lottery ensure user access to the systems is protected and effectively managed by those users.

Review of Lottery's monthly cybersecurity training log indicated several upper-level management employees did not complete, and were past due on, statewide cybersecurity trainings. Additionally, several employees that did not complete significant portions of the statewide trainings also had user-IDs associated with the iLottery platform which required specific training in the areas of systems access and passwords to ensure Lottery had effectively implemented a required CUEC.

Neglecting to ensure that staff members complete required cybersecurity training increases Lottery's exposure to unauthorized individuals gaining access to its various gaming and financial reporting systems.

Recommendation:

Lottery should comply with its *Account Level User Access to Vendor Data Systems* policy and ensure that accounts that are no longer associated with user employees are disabled in a timely manner. User access permission reviews should be performed timely, and user access should be removed or adjusted as appropriate based on the results of the reviews.

Lottery should also comply with the *DoIT Security Awareness and Training Policy* and monitor to ensure that staff members complete the required training modules in a timely manner.

Auditee Response:

The Lottery concurs with the observation concerning system access policies. The Lottery concurs with the conclusion that user access permission reviews should be performed in a timely manner and maintains that such a review happened in the instance of the employee described in the narrative above. While the employee's name and User ID remained on the roster of individuals with access to the system, the person's access actually became dormant upon separation from the agency such that the person could not have accessed the account, even though it appears in a list of enabled accounts. The Lottery appreciates that removing such an employee from the user list, even after that person's access has been disabled, provides additional protection from system vulnerabilities and will ensure such reviews and updates regularly occur going forward.

Cybersecurity training courses have increased, and the Lottery is adjusting to these changes. Department heads and managers are being tasked with monitoring, with the assistance of the Lottery DOIT representative, the completion of training on a timely basis.

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CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of December 19, 2025, of the observations contained in the New Hampshire Lottery Commission’s Management Letters for the fiscal years ended June 30, 2024 and 2023. Those reports can be accessed at, and printed from, the Office of Legislative Budget Assistant website: <https://gc.nh.gov/lba/auditreports/financialreports.aspx>

2024 Audit Comments Internal Control Comments

		<u>Status</u>	
<i>Significant Deficiencies</i>			
2024-1	<p>Expand Financial Accounting And Reporting Staff <i>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. (See current Observation No. 1)</i></p>	●	○
2024-2	<p>Financial Reporting Of Multijurisdictional iLottery Games Should Be Evaluated <i>Perform an analysis to gain a thorough understanding of the Mega Money Jackpot (MMJ) games process. Determine the appropriate accounting treatment of 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.</i></p>	●	●
2024-3	<p>Tri-State Lotto Commission Responsibilities Should Be Appropriately Segregated <i>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. (See current Observation No. 1)</i></p>	●	○

Status

2024-4	<p>Prize Claim Payment Controls Should Be Strengthened <i>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 staff, staff should be trained, and a periodic review should be performed to ensure established control processes are in place and operating as intended.</i></p>	●	●
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Compliance Comments

State Compliance

2024-5	<p>Council For Responsible Gambling Should Fulfill Its Statutory Duties <i>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.</i></p>	●	●
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2024-6	<p>Strengthen Process For Monitoring Vendor Compliance <i>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.</i></p>	●	○
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2023 Audit Comments
Internal Control Comments

Significant Deficiencies

2023-1	<p>Revenue Recognition Control For Historical Horse Racing Revenues Should Be Strengthened <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>	●	●
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		<u>Status</u>	
2023-2	<p>Ineligible Players Listings Should Be Complete <i>Update ineligible players listings policy to require vendors and partner organizations 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 <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 <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>	●	●

Compliance Comments

State Compliance

2023-5	<p>System And Organization Controls Reports Covering Historical Horse Racing Tote Systems Should Be Obtained As Required By Administrative Rule <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>	●	●
2023-6	<p>Comply With Or Amend Biennial Transfer Limit <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>	●	●

Status Key

<u>Status Key</u>	<u>Status</u>	<u>Count</u>
Resolved	● ●	9
Remediation In Process (action beyond meeting and discussion)	● ○	3
Unresolved	○ ○	0

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