

2000

Audit of Gov't Revenues from CNMI Lottery Operations for 4th Qtr FY 1998

(March 22, 2000)

This letter report presents the results of our audit of government revenues from the Commonwealth of the Northern Mariana Islands (CNMI) lottery operations for the fourth quarter of fiscal year 1998 ending September 30, 1998. The objective of the audit was to determine whether government revenues from the CNMI lottery operations were accurately computed in accordance with the Memorandum of Understanding and terms of agreement between the CNMI Government, as represented by the Department of Finance (DOF), and the CNMI lottery operators, namely, TMS Saipan, Ltd. (TMS), Numbers International Lottery (NIL), and Just For Fun (JFF).

Our audit showed that government revenues of \$172,566 from the CNMI lottery operations for the fourth quarter of fiscal year 1998 ending September 30, 1998 were understated due to computation and deposit errors, and delay in remitting quarterly license fees by the CNMI lottery operators. As a result, government revenues were understated by \$12,934 and should be increased to \$185,500.

Our audit also showed that NIL and JFF sold tickets with different number series as well as different colors and formats, making it impossible to account for the actual number of tickets sold. Accordingly, there was no assurance that government revenues received from NIL and JFF were complete.

We recommended that the Secretary of Finance (1) request TMS and NIL to correct their records and transmit to DOF the estimated net underpayment of \$410 and \$24, respectively, and to instruct JFF to timely remit its quarterly license fees; (2) instruct the DOF Finance and Accounting Division to prepare the necessary adjustments to the CNMI Lottery bank and revenue account to correct the reconciling items noted by the audit; (3) address our pending recommendations relating to the development and implementation of written procedures and monitoring log sheets by DOF, NIL, and JFF, to ensure that tickets printed and issued to agents are controlled and that sold and unsold tickets are accounted for on a regular basis; (4) review the Pacific Instant Lottery (PIL) General Manager's right to operate the CNMI retail lotto services; and (5) review the exclusive agency agreement between JFF and Mr. Juan S. Demapan and investigate the gambling activities of Mr. Demapan to determine whether imposing administrative sanctions against JFF is warranted.

In her letter response dated February 18, 2000, the Secretary of Finance concurred with all the recommendations, and provided OPA copies of the letters issued, as well as deposit slip, bank statement (reflecting additional commission credited), and letter received, to address some of the recommendations.

Based on the response we received from the Secretary, we consider Recommendation 1 closed. Recommendation 2 is considered open because the response did not address the

recommendation. Recommendation 3 remains resolved (same status as in the prior quarter audit) because DOF has not taken additional action since the prior quarter audit to address this pending recommendation. Recommendations 4 and 5 are considered resolved pending completion of the review of the PIL General Manager's right to operate, and OPA's receipt of a copy of DOF's referral letter to AGO on the issue of exclusive agency agreement between JFF and Mr. Demapan (Recommendation 5 will then be redirected to AGO). The additional information or action required to close the recommendations is presented in the report.