



## Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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May 11, 1999

Ms. Lucy DLG. Nielsen  
Secretary, Department of Finance  
Capitol Hill  
Saipan, MP 96950

Dear Ms. Nielsen:

**Subject: Final Letter Report on the Audit of Government Revenues from the CNMI Lottery Operations for the Second Quarter of Fiscal Year 1998 Ending March 31, 1998 (LT-99-05)**

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 second quarter of fiscal year 1998 ending March 31, 1998. The objective of the audit was to determine whether government revenues from CNMI lottery operations were accurately computed in accordance with the Memorandum of Understanding and terms of agreements between the CNMI Government as represented by the Department of Finance (DOF) and the CNMI lottery operators, namely, Tattersall Sweep Consultation of Australia (Tattersall's), Numbers International Lottery (NIL), and Just For Fun (JFF).

Our audit showed that government revenues of \$212,529 from CNMI lottery operations for the second quarter of fiscal year 1998 ending March 31, 1998 were understated due to computation errors committed by one of the CNMI lottery operators. As a result, government revenues were understated by an estimated \$4,273 and should be increased to \$216,802.

Our audit also showed that NIL did not maintain copies of tickets sold, 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.

The accompanying schedule (**Appendix A**) shows a detailed summary of government revenues for the second quarter of fiscal year 1998 ending March 31, 1998 with cumulative totals for the two quarters of both fiscal years 1997 and 1998, after reflecting required adjustments.

We recommended that the Secretary of Finance (1) request NIL to correct its records and transmit to DOF the estimated net underpayment of \$4,273; (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; and (3) require 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. This should be documented through monitoring log sheets signed by the printing company, lottery operator, or agents (depending on the log sheet), and reviewed by DOF.

In her letter response dated April 22, 1999 (**Appendix B**), the Secretary of Finance concurred with all the recommendations, and provided OPA copies of the letters issued, deposit slip received, and adjusting journal entries made to address the recommendations.

Based on the response we received from the Secretary, we consider Recommendation 1 closed. Recommendations 2 and 3 are considered resolved pending recording of the \$4,273 additional commission and implementation of control procedures. Additional information or action required to close the recommendations is presented in **Appendix C**.

## **BACKGROUND**

### *The CNMI Lottery*

The Commonwealth Lottery Commission Act, codified in 1 CMC §9301 et seq. of the Commonwealth Code, authorized the operation of a public lottery in the Commonwealth. The Act mandated that the public lottery be administered by a Commonwealth Lottery Commission, whose members were the Director of Finance, the Attorney General, and the Director of Commerce and Labor.

On August 24, 1994, the Commonwealth Lottery Commission was abolished, and its functions were transferred to the Department of Finance pursuant to Section 307 (a) of Executive Order 94-3 issued by the Governor. Under the Executive Order, the Secretary of Finance was to assume the administrative functions of the defunct Commission. The Secretary of Finance, however, was still required to consult with the Secretary of Commerce and the Attorney General as necessary for administration of the CNMI Lottery.

### *CNMI Lottery Operators*

The CNMI Government, through the former Commonwealth Lottery Commission and the Department of Finance, issued lottery operator licenses authorizing the following three companies to conduct public lotteries in the CNMI.

#### *Tattersall Sweep Consultation*

The Trustees of the Will and Estate of the late George Adams, carrying on business under the name of Tattersall Sweep Consultation (Tattersall's), were issued a lottery operator's license effective July 29, 1993 to July 28, 2003. The license granted Tattersall's the exclusive right to

conduct all public lotteries in the CNMI. The license also allowed Tattersall's to appoint accredited representatives to sell the lottery games. On September 1, 1993, TMS Saipan, Ltd. was locally incorporated in the CNMI by Mr. John Hycenko, President of The Mail Service (TMS) Pty. Ltd., the sole accredited and authorized representative for the overseas operations of Tattersall's games, to manage lottery operations and sale of instant lottery tickets for Tattersall's.

On October 14, 1993, TMS Saipan began its lottery operations in the CNMI. Currently, two types of games are offered to the public by TMS. These games are described as follows:

- **On-Line Games** - An on-line game is one of various types of lottery games which utilize electronic equipment such as a computer system to administer play, and in which a player may select; (1) a combination of numbers to be played; (2) the type of game to be played; and (3) the amount of play for one or more specified drawing dates. The CNMI Lottery operator then conducts a random drawing whereby, pursuant to chance, the winning combinations of numbers are selected, with such numbers then used to determine the award of prizes in accordance with the rules of the specific on-line game being played.
- **Instant Tickets** - An instant ticket is a lottery game in which the player purchases a ticket with a play area which in some manner is hidden from view. The playarea contains numbers or symbols which when revealed (by scratching) will determine whether one or more prizes have been won by the player. The numbers or symbols are printed in such a manner that distribution of prizes within each game has been predetermined as to the number and amount of prizes but not as to the random basis upon which prizes are awarded.

#### Numbers International Lottery

Numbers International, Inc., doing business under the name of the Numbers International Lottery (NIL), was issued a lottery operator's license for the period December 12, 1997 to July 28, 2003. The license granted NIL the exclusive right to sell tickets for a public lottery game called "Jueteng."

NIL began its lottery operations on September 15, 1997 under a temporary license issued by the Department of Finance. The Jueteng games conducted by NIL are described as follows:

- **Two Number Game** - A two number game is played using tickets sold to players by NIL authorized sellers. Each ticket is printed in triplicate and the numbers 1 to 38 are printed on it. The player selects two numbers and prints them in 2 designated boxes printed on each ticket. The buyer keeps one copy, the seller keeps the duplicate, and then the seller turns in the triplicate copy to the NIL office where the daily drawing is held.
- **One Number Game** - A one number game is also played using the same type of tickets and procedure used for the two number games. However, as the name of the game implies, the player selects only one number, and the prize for winning is smaller.

NIL conducts daily lottery drawings in its office between approximately 11:00 p.m. and midnight when the ticket sellers have reported their collections for the day. The actual drawing of the winning numbers is done similar to those of a more popular game known as Bingo. Balls with number 1 to 38 are placed in a transparent plastic container. The container is connected to a tube that feeds air which causes the balls to be constantly in motion. On top of the container is an opening for a single ball. On top of the opening, a cylindrical tube is attached for holding a ball that will pop out of the container. The opening also has a cover inserted through the tube. When it is time to draw a number, the opening cover is removed and the air causes one ball to pop into the tube. Two balls are drawn to represent the winning 2 number combination and at the same time, the first ball drawn represents the winners of the one number game.

Just For Fun

Just For Fun, Inc., doing business under the name of Just For Fun (JFF), was issued a lottery operator's license for the period January 9, 1998 to January 8, 2003. The license granted JFF to sell tickets for a public lottery game called "Jueteng." JFF operates the same Jueteng games conducted by NIL as described above.

JFF conducts daily lottery drawings in its office at night when the ticket sellers have reported their collections for the day. It uses a "spin a wheel." The wheel, which has numbers 1 to 37, is spun twice; the first number that comes out in the spinning wheel is the first winning number in the two number game, and the second number that comes out is the second winning number. Any one of the two numbers drawn represents the winners of the one number game.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of the audit was to determine whether government revenues from CNMI lottery operations were accurately computed in accordance with the Memorandum of Understanding and terms of agreements between the CNMI Government, as represented by the Department of Finance (DOF), and the CNMI lottery operators, namely, Tattersall Sweep Consultation of Australia (Tattersall's), Numbers International Lottery (NIL), and Just For Fun (JFF). The scope of the audit covered government revenues from CNMI lottery operations for the second quarter of fiscal year 1998 ending March 31, 1998.

To accomplish our objective, we performed independent computations of government revenues. We also compared government revenues earned during the quarter with amounts received by DOF. For Tattersall's games, we determined whether subscription prices of all on-line games sold and instant game tickets shipped into the CNMI were accurately included in the computation base for government revenues. We relied on the weekly summary reports submitted by a chartered accountant hired by TMS (in Australia) in determining subscription prices of on-line games. We also conducted physical counts of instant game tickets before the tickets were sold. In addition, we also verified, on a test basis, whether the tickets sold were among those included in our physical count. For NIL Jueteng games, we reviewed the General Cashier's Recap reports prepared by the NIL accountants. However, we were not able to examine the basis for the reports because NIL did not maintain separate records for each type of game and did not keep copies of the lottery

tickets sold during the period under audit. For JFF Jueteng games, we reviewed the Daily Activity Reports prepared by the JFF accountants. We also verified, on a test basis, whether the amount of lottery sales reported to DOF tied in with the lottery tickets sold. For all the games, we also reviewed DOF records and bank statements to verify recording and receipt of government revenues.

This performance audit was conducted at the offices of Tattersall's and DOF in Saipan between October 5, 1998 and December 18, 1998. This audit was made, where applicable, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary under the circumstances. We completed our field work on December 18, 1998.

As part of our audit, we evaluated DOF's internal controls over the computation, receipt, and recording of government revenue, as well as ensuring the completeness of lottery sales. We found weaknesses in these areas, which are discussed in the Findings and Recommendations section of this report. Our recommendations when implemented should improve controls in these areas.

## **FINDINGS AND RECOMMENDATIONS**

### **A. Government Revenues were Understated**

Government revenues from the CNMI lottery operations should be computed based on the Memorandum of Understanding (MOU) and terms of agreements between the CNMI Government and the CNMI lottery operators. Our audit showed that government revenues of \$212,529 from the CNMI lottery operations for the second quarter of fiscal year 1998 ending March 31, 1998 were understated due to computation errors committed by one of the CNMI lottery operators. This occurred because NIL (1) computed government revenues based on net sales instead of gross sales, and (2) computed government revenues from the two types of lottery tickets sold using a 10 percent commission rate although one of the games was subject only to a 5 percent rate. As a result, government revenues were understated by an estimated \$4,273 and should be increased to \$216,802.

#### ***Memorandum of Understanding and Terms of Agreements***

On February 9, 1994, the Secretary of Finance entered into a Memorandum of Understanding (MOU) with TMS, the sole accredited representative of Tattersall's. The MOU set forth the rights and obligations of each party as they relate to the operation of lottery games. Under the MOU, the CNMI Government is to receive and be compensated directly and indirectly by the payment of commissions, taxes, duties and fees in an amount equivalent to at least 35 percent of the subscription price paid for each on-line ticket sold, and in an amount equivalent to 26.5 percent of the subscription price for each instant game ticket sold. TMS, however, subsequently agreed to compensate the CNMI Government upon shipment and delivery of instant game tickets for sale in the CNMI.

On August 28, 1997, the Acting Secretary of Finance entered into a Lottery Operator’s Agreement (LOA) with NIL. The LOA set forth the terms and conditions for allowing NIL to conduct the Jueteng games. Under the LOA, NIL is required to pay an annual license fee of \$150,000, payable in equal quarterly installments. NIL is to also pay a commission to the DOF General Lottery Account in the amount of 10 percent of gross sales on the two number games and 5 percent of gross sales on the one number games.

On January 9, 1998, the Acting Secretary of Finance also entered into a Lottery Operator’s Agreement with JFF. The terms and conditions set forth in the LOA with JFF are mostly identical with those set forth in the LOA with NIL as described above.

**Error In Computing Government Revenues**

Government revenues from the CNMI lottery operations for the second quarter of fiscal year 1998 totaled \$212,529. Of this amount, \$43,900 was paid by TMS, \$82,901 by NIL, and \$83,044 by JFF. Our audit showed, however, that government revenues were understated by an estimated \$4,273 due to computation errors committed by NIL. The following presents the details of government revenues earned and the computation errors we found during our audit.

Particulars	Unadjusted Revenues	Computation Errors	Adjusted Revenues
Tattersall’s			
– On-line games	\$11,616	-	\$11,616
– Instant Tickets	32,284	-	32,284
Sub-Total	\$43,900	\$0	\$43,900
NIL Jueteng			
– Two number games	\$45,401	\$534	\$45,935
– One number games	-	3,739	3,739
– License fee	37,500	-	37,500
Sub-total	\$82,901	\$4,273	\$87,174
JFF Jueteng			
– Two number games	\$44,229	-	\$44,229
– One number games	1,315	-	1,315
– License fee	37,500	-	37,500
Sub-total	\$83,044	\$0	\$83,044
Interest/Other Income	\$2,684	-	\$2,684
TOTAL	\$212,529	\$4,273	\$216,802

This condition occurred because NIL (1) computed government revenues based on net sales instead of gross sales, and (2) computed government revenues from the two types of lottery tickets sold using a 10 percent commission rate although one of the games was subject only to a 5 percent rate. In computing government revenues, NIL based its computation only on sales or cash receipts from lottery games net of the 15% commissions paid to sales and collection agents (referred to locally as “Cabo”). Under the LOA, however, NIL is required to compute government revenues based on gross sales. NIL also failed to separate sales of two number games from one number games. Consequently, NIL multiplied the 10 percent compensation rate for two number games

with the total sales amount. Under the LOA, however, one number games are subject only to a 5 percent compensation rate.

Further inquiries showed that NIL did not maintain separate records for each type of game and did not keep copies of the lottery tickets sold during the period under audit. At the request of OPA, NIL began maintaining separate records for the two types of games and retaining copies of tickets sold starting June 5, 1998. Information from the separate records from June 5 to September 31, 1998 (available records) showed that the average daily ticket sales consisted of 86 percent two number games and 14 percent one number games. These percentages were used to allocate the total sales reported by NIL between the two types of games for the purpose of estimating the amount of computation errors committed by NIL during the period under audit. The following is a computation of the estimated net understatement based on the allocation percentages described above:

Government revenues per audit (based on gross sales)			
- Two number games	\$534,125 x 86% x 10%	=	\$ 45,935
- One number games	534,125 x 14% x 5%	=	<u>3,739</u>
			<u>49,674</u>
Government revenues per NIL (based on net sales)			
- Two number games	\$454,006 x 10%	=	45,401
- One number games	-	=	<u>-</u>
			<u>45,401</u>
Estimated net understatement			<u><u>\$ 4,273</u></u>

As a result, government revenues should be increased by the estimated net understatement of \$4,273 from \$212,529 to \$216,802.

## **B. No Assurance of Completeness of Government Revenues**

Adequate procedures should be in place to ensure completeness of lottery sales, which is the basis for the computation of government revenues reported by the CNMI lottery operators. Our audit showed, however, that NIL did not maintain copies of tickets sold, 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. This occurred because the lottery operators and the DOF did not employ control procedures that can assist in verifying lottery sales reported to DOF. Accordingly, there was no assurance that government revenues received from NIL and JFF were complete.

### ***Monitoring of Lottery Sales***

DOF should adopt procedures to ensure the completeness of lottery sales, which is the basis for the computation of government revenues reported by the CNMI lottery operators. DOF should require lottery operators to ensure that tickets printed and issued to agents are controlled, and that sold and unsold tickets are accounted for on a regular basis. Without such a procedure, lottery sales could be easily understated without detection. Therefore, this procedure should be documented

through monitoring log sheets signed by the printing company, lottery operator, or agents (depending on the log sheet), and reviewed by DOF.

#### NIL Lottery Sales

Our audit showed that NIL did not maintain copies of tickets sold that can be used to verify lottery sales reported to DOF because the tickets were disposed of on a periodic basis. DOF maintained only the General Cashier's Recap reports prepared by the NIL accountants. These reports include information on the daily lottery ticket transactions such as each cashier's collections from tickets sold, computation of commissions due to the government, and details of prizes paid per agent. OPA, however, was not able to examine the basis for the reports because NIL did not maintain separate records for each type of game, and copies of the original lottery tickets that can be used to identify the type of game sold were not available because NIL disposed of all used tickets on a periodic basis. At the request of OPA, NIL began maintaining separate records for the two types of games and retaining copies of tickets sold starting June 5, 1998. Also, in response to our recommendation in the previous audit, the acting Secretary of Finance issued a letter to NIL on August 12, 1998 requesting them to maintain separate and adequate records for each type of game for tax and audit purposes.

#### JFF Lottery Sales

Our review showed that DOF maintained only the Daily Activity Reports prepared by the JFF accountants. These reports include information on the daily lottery ticket transactions such as tickets sold, gross income derived, prizes paid, prizes unclaimed, computation of commissions due to the government, creditable as Business Gross Receipt Tax, and as additional commissions.

OPA verified, on a test basis, whether the amount of lottery sales reported to DOF tied-in with the lottery tickets sold. Our review revealed immaterial discrepancies. We noted, however, that 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. Specifically, in our review of lottery tickets sold during the three consecutive days, we noted the following: (1) tickets sold were in different number series and not in sequence. For example, ticket series # 841111 to 841128 were sold on March 11, 1998 while ticket # 8133760 was sold on March 9, 1998. The ticket series in between these numbers (# 841129 to 8133759) totaling about 29 million tickets were not included as tickets sold on selected days we tested. Another example was ticket # 152650 which was sold on March 11, 1998 while ticket # 493276 was sold on March 9, 1998. The ticket series in between these numbers (# 152651 to 493275) totaling about 1 million tickets were not included as tickets sold on selected days we tested; and (2) various types of tickets were printed, *i.e.*, in different colors - dark blue, light blue, or red; and different format, *i.e.*, either in 4 or 5 quantities per ticket (the ticket number is followed by *A to D* or *A to E*, respectively).

This occurred because the lottery operators and the DOF did not employ control procedures that can assist in verifying lottery sales reported to DOF. Accordingly, there was no assurance that government revenues received from NIL and JFF were complete.

## Recording of Government Revenues

We reviewed the accounting records of DOF to determine if government revenues were accurately recorded and deposited in the CNMI lottery bank account. We also reconciled DOF revenue and bank balances with the adjusted balances after reflecting the required adjustments. Our review showed several reconciling items that need to be adjusted by DOF. A summary of the reconciliation is shown in the following table.

Particulars	Lottery Bank Account	Total Revenues
Unadjusted DOF balances - 03/31/98	\$154,913	\$0
Reconciling Items:		
1. Government revenues for 3 <sup>rd</sup> Quarter FY 1997 erroneously recorded under the CNMI General Fund <sup>a</sup>	42,912	
2. Government revenues received but not recorded by DOF as of 3/31/98		
- 4 <sup>th</sup> Quarter FY 1997 <sup>b</sup>	447	
- 1 <sup>st</sup> Quarter FY 1998 <sup>c</sup>	112,395	112,395
- 2 <sup>nd</sup> Quarter FY 1998 <sup>c</sup>	166,654	166,654
3. Accrual of government revenues for 2 <sup>nd</sup> quarter FY 1998 <sup>c</sup>		5,691
4. Licence fee of JFF for 2 <sup>nd</sup> quarter FY 1998 received but not deposited and recorded by DOF as of 3/31/98 <sup>d</sup>		37,500
5. Interest earned and other income received but not recorded by DOF as of 3/31/98		
- 3 <sup>rd</sup> Quarter FY 1997 <sup>c</sup>	26	
- 1 <sup>st</sup> Quarter FY 1998 <sup>c</sup>	1,272	1,272
- 2 <sup>nd</sup> Quarter FY 1998 <sup>c</sup>	2,684	2,684
6. Understatement of government revenues for FY 1998, per audit		
- 1 <sup>st</sup> Quarter FY 1998 <sup>e</sup>		3,946
- 2 <sup>nd</sup> Quarter FY 1998		4,273
Adjusted Balances - 03/31/98	\$481,303	\$334,415

Notes:

- a. In response to our recommendation in the 4<sup>th</sup> Qtr. FY 1997 audit, DOF made a journal entry on August 13, 1998 to adjust this reconciling item.
- b. In response to our recommendation in the 1<sup>st</sup> Qtr. FY 1998 audit, DOF made a journal entry on September 30, 1998 to adjust this reconciling item.
- c. Recorded by DOF on May 31, 1998 except for the \$35 interest in prize trust account received in the 2<sup>nd</sup> Qtr. FY 1998.
- d. See finding C for details.
- e. In response to our recommendation in the 1<sup>st</sup> Qtr. FY 1998 audit, DOF collected the understatement from NIL who deposited the amount to the CNMI lottery bank account on February 10, 1999.

DOF should prepare the necessary adjustments in its books to correct the reconciling items noted in the table above.

## C. Other Matters

### *Issuance of Additional Lottery Operator's License*

On or before January 9, 1998, the former Acting Secretary of Finance issued another lottery operator's license to Just For Fun, Inc., doing business under the name of JFF, to conduct Jueteng games which were supposedly covered by the exclusive license issued earlier to NIL. Based on available documents, it appears that JFF's license was granted upon authorization by the former Governor on January 8, 1998, nearly the last day of his term as Governor. On February 9, 1998, the Acting Secretary of Finance (appointed by the new Governor) notified JFF that DOF intended to rescind JFF's license because it infringed on one or both of the exclusive licenses already issued to Tattersall's and NIL. In its letter to JFF, DOF noted that it was also reviewing the license issued to NIL to determine whether it infringed on the existing license issued to Tattersall's. JFF, however, requested an administrative hearing regarding its case.

On December 18, 1998, OPA followed-up with DOF on the status of the revocation of the JFF license. OPA also inquired about the \$75,000 check DOF received from JFF on December 31, 1997, representing license fees for the two quarters ending March 31 and June 30, 1998, which was not deposited to the CNMI lottery bank account and is being held by the CNMI Treasury. DOF informed OPA that the matter was referred to the Attorney General's Office (AGO) for a legal opinion. In her January 11, 1999 letter to the Public Auditor, the Secretary of Finance stated that according to AGO, the case is still ongoing and that JFF had appealed the case to the Superior Court. The Government is awaiting a written court order following a court hearing. Informal departmental information indicates that JFF is still operating due to a Superior Court bench order (oral order) staying the rescission of the license and allowing the company to operate during the appeal process. With regards to the \$75,000 undeposited check for license fees, the CNMI Treasury deposited the check on December 28, 1998 after AGO approved that deposit.

OPA will review the issuance of the additional lottery operator licenses by DOF to determine whether there was any violation of applicable laws and regulations. OPA will also review NIL and JFF's compliance with their lottery operator's agreements with DOF. A separate report covering these matters will be issued at a later date.

### *Assignment of Lottery Operator's License*

On June 30, 1998, DOF entered into an agreement assigning Tattersall's lottery operator license to TMS, the sole accredited agent of Tattersall's for overseas operations. As explained in the agreement, Tattersall's exercised its termination rights alleging that the CNMI Government breached Tattersall's exclusive lottery license by granting additional "exclusive lottery license(s)" to other entities. As a result, Tattersall's would no longer make its lottery games available or permit its lottery games to be sold in the CNMI subsequent to June 30, 1998. TMS, however, had offered to continue sale of lottery games from other lottery jurisdictions, with the government revenue share continuing on a basis equivalent to the revenue share previously guaranteed to the CNMI Government by Tattersall's. The CNMI accepted TMS's offer "to continue to generate maximum

revenues for the CNMI general fund as required by law while the CNMI seeks to reestablish the value of the CNMI lottery license which value was substantially diminished as a result of issuance of so-called additional lottery licenses.” The term of the agreement was for 90 days from the date of its implementation, and could be renewed for one or more successive 90-day terms in order to facilitate the parties’ undertaking and discharge of responsibilities under the agreement.

It appears, however, that the agreement entered into by DOF with TMS was not an actual assignment of Tattersall’s license. If it were, the terms of the agreement should have been the same as the original license which was effective until July 28, 2003. We also found no documents showing that Tattersall’s agreed to assign its license to TMS. OPA will further review this matter and will issue its findings in a separate report.

## Conclusions and Recommendations

Government revenues were understated by an estimated \$4,273 due to computation errors committed by NIL. Therefore, government revenues should be increased from \$212,529 to \$216,802. The accompanying schedule (**Appendix A**) shows a detailed summary of government revenues for the second quarter of fiscal year 1998 ending March 31, 1998 with cumulative totals for the two quarters of both fiscal years 1997 and 1998, after reflecting required adjustments. As explained in the body of this report, NIL did not maintain copies of tickets sold, 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 recommend that the Secretary of Finance:

1. Request NIL to correct its records and transmit to DOF the estimated net underpayment of \$4,273.
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. Require 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. This should be documented through monitoring log sheets signed by the printing company, lottery operator, or agents (depending on the log sheet), and reviewed by DOF.
  - a. *Tickets printed and issued to agents.* Tickets should be printed using only one number series, color, and format. Tickets received from a printing company should be controlled by using monitoring log sheets signed by the printing company and lottery operator. Distribution of the printed tickets to agents should be in numerical sequence and controlled by requiring agents to sign in the log sheets. DOF should periodically review the log sheets.

- b. *Tickets sold and unsold by agents.* Agents should account for sold and unsold tickets daily. If unsold tickets are to be reissued to agents, the number series should be controlled. This procedure should be documented through monitoring log sheets signed by agents and reviewed by DOF.

### **DOF Response**

In her letter response dated April 22, 1999 (**Appendix B**), the Secretary of Finance concurred with all the recommendations, and provided OPA copies of the letters issued, deposit slip received, and adjusting journal entries made to address the recommendations, as follows.

Recommendation 1 - The Secretary of Finance issued a letter on April 21, 1999 to NIL requesting transmittal of the additional \$4,273 that is due to the CNMI Government. That amount was deposited by NIL to the CNMI lottery bank account on April 27, 1999.

Recommendation 2 - The Secretary of Finance made the necessary journal entries to adjust the reconciling items noted by the audit. DOF has not recorded, however, the collection of the \$4,273 additional commission pending receipt of the bank statement.

Recommendation 3 - The Secretary of Finance issued letters on April 21, 1999 to NIL and JFF, respectively, to ensure that tickets printed and issued to agents are controlled, and that sold and unsold tickets are accounted for on a regular basis.

### **OPA Comments**

Based on the response we received from the Secretary, we consider Recommendation 1 closed. Recommendations 2 and 3 are considered resolved pending recording of the \$4,273 additional commission and implementation of control procedures. Additional information or action required to close the recommendations is presented in **Appendix C**.

Our office has implemented an audit recommendation tracking system. All audit recommendations will be included in the tracking system as open or resolved until we have received evidence that the recommendations have been implemented. An *open* recommendation is one where no action or plan of action has been made by the auditee (department or agency). A *resolved* recommendation is one in which the auditors are satisfied that the auditee cannot take immediate action, but has established a reasonable plan and time frame for action. A *closed* recommendation is one in which the auditee has taken sufficient action to meet the intent of the recommendation or we have withdrawn it.

Please provide to us the status of recommendation implementation within 30 days along with documentation showing the specific actions that were taken. If corrective actions will take longer than 30 days, please provide us additional information every 60 days until we notify you that the recommendation has been closed.

Sincerely,



Leo L. LaMotte  
Public Auditor, CNMI

- cc: Governor
- Lt. Governor
- Eleventh CNMI Legislature (27 copies)
- Acting Attorney General
- Acting Special Assistant for Management and Budget
- Public Information Officer
- Norma Arnold, President, NIL
- Juan Cabrera, President, JFF
- Craig J. Patillo, Pacific Instant Lottery, General Manager
- John Hycenko, The Mail Service, Managing Director
- Press

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
DEPARTMENT OF FINANCE**

**Schedule of Government Revenues from the CNMI Lottery Operations  
For the Second Quarter of Fiscal Year 1998 Ending March 31, 1998  
(With cumulative totals for the two quarters of fiscal year 1998, and  
comparative totals for the two quarters of fiscal year 1997)**

Lottery Games	Number of Games or Tickets Sold	Amount Subject to Commissions	Commissio n Rate (%)	Revenues Second Quarter 1998	Total Revenues FY 1998	Total Revenues FY 1997
Tattersall's						
On-Line Games						
- Saturday	82,104	\$21,917	35.00	\$7,671	\$15,688	\$23,069
- Midweek	-	-	35.00	-	-	-
- OZ Lotto	7,956	5,293	35.00	1,853	3,424	3,710
- Keno	9,095	5,691	36.75	2,092	4,447	3,478
Sub-total	99,155	\$32,901		\$11,616	\$23,559	\$30,257
Instant Tickets						
- Five Dollars	-	-	26.50	-	-	\$1,899
- Two Dollars	10,000	\$17,000	26.50	4,505	2,252	27,031
- One Dollar	125,000	104,825	26.50	27,779	51,113	38,890
Sub-total	135,000	\$121,825		\$32,284	\$53,365	\$67,820
Total Tattersall's	234,155	\$149,662		\$43,900	\$76,924	\$98,077
NIL Jueteng						
Two Number	459,348	\$459,348	10.00	\$45,935	\$88,303	-
One Number	74,777	74,777	5.00	3,739	7,188	-
License Fees	-	-	-	37,500	75,000	-
Total NIL Jueteng	534,125	\$534,125		\$87,174	\$170,491	-
JFF Jueteng						
Two Number	442,293	442,293	10.00	\$44,229	\$44,229	-
One Number	26,298	26,298	5.00	1,315	1,315	-
License Fees	-	-	-	37,500	37,500	-
Total JFF Jueteng	468,591	468,591		\$83,044	\$83,044	-
Interest/Other Income				\$2,684	\$3,956	\$10,893
GRAND TOTAL				\$216,802	\$334,415	\$108,970

Note: Appendix B (5 pages) which contains the response letter of the Secretary of Finance was intentionally omitted to reduce the size of the electronic version of this report. The response has been incorporated in the text of this report. A copy of the response letter may be requested by e-mail to [mail@opacnmi.com](mailto:mail@opacnmi.com).

**Audit of Government Revenues from the CNMI Lottery Operations  
For the Second Quarter of Fiscal Year 1998 Ending March 31, 1998**

**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
1. Request NIL to correct its records and transmit to DOF the estimated net underpayment of \$4,273.	DOF	Closed	The Secretary of Finance concurred with all the recommendations, and provided OPA copies of the letters issued, deposit slip received, and adjusting journal entries made to address the recommendations. For Recommendation 1, a letter was issued on April 21, 1999 to NIL requesting transmittal of the additional \$4,273 that is due to the CNMI Government. That amount was deposited by NIL to the CNMI lottery bank account on April 27, 1999. For Recommendation 2, necessary journal entries were made to adjust the reconciling items noted by the audit except for the \$4,273 2 <sup>nd</sup> quarter FY 1998 unrecorded revenues. For Recommendation 3, letters were issued on April 21, 1999 to NIL and JFF, respectively, to ensure that tickets printed and issued to agents are controlled, and that sold and unsold tickets are accounted for on a regular basis.
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.	DOF	Resolved	<i>Further Actions Required</i>
<p>3. Require 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. This should be documented through monitoring log sheets signed by the printing company, lottery operator, or agents (depending on the log sheet), and reviewed by DOF.</p> <p><i>Tickets printed and issued to agents.</i> Tickets should be printed using only one number series, color, and format. Tickets received from a printing company should be controlled by using monitoring log sheets signed by the printing company and lottery operator. Distribution of the printed tickets to agents should be in numerical sequence and controlled by requiring agents to sign the log sheets. DOF should periodically review the log sheets.</p> <p><i>Tickets sold and unsold by agents.</i> Agents should account for sold and unsold tickets daily. If unsold tickets are to be reissued to agents, the number series should be controlled. This procedure should be documented through monitoring log sheets signed by agents and reviewed by DOF.</p>	DOF	Resolved	<p>Recommendation 2 - Provide OPA a copy of the journal entry to record the \$4,273 additional commission.</p> <p>Recommendation 3 - Provide OPA copies of the written procedures and monitoring log sheets established and implemented 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.</p>