



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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February 12, 1998

Ms. Esther A. Calvo
Acting Secretary
Department of Finance
Capitol Hill
Saipan, MP 96950

Dear Mr. Camacho:

Subject: Final Letter Report on the Audit of Government Revenues from the CNMI Lottery Operations for the Third Quarter of Fiscal Year 1997 Ending June 30, 1997 (Report No. LT-98-02)

This report presents the results of our audit of government revenues from the Commonwealth of the Northern Mariana Islands' (CNMI) Lottery operations for the third quarter of fiscal year 1997 ending June 30, 1997. This quarterly audit was conducted in compliance with 1 CMC §9320 of the Commonwealth Code which requires the Office of the Public Auditor (OPA) to perform quarterly audits of the CNMI Lottery. The primary objective of the audit was to determine whether government revenues from the CNMI Lottery operations were properly computed in accordance with the terms of agreements and memorandum of understanding for the operation of the CNMI Lottery between the CNMI and Tattersall Sweep Consultation of Australia (Tattersall's) and its accredited authorized representative agent, The Mail Service, Saipan, Ltd (TMS).

Our audit showed that government revenues of \$70,996 from the CNMI Lottery operations for the third quarter of fiscal year 1997 ending June 30, 1997 were properly computed in accordance with the terms of agreements and memorandum of understanding. The accompanying schedule shows a detailed summary of government revenues earned for the third quarter with cumulative totals for the three quarters of fiscal year 1997 and comparative totals for the three quarters of fiscal year 1996, after reflecting required adjustments (see APPENDIX A).

BACKGROUND AND ORGANIZATION

The CNMI Lottery

The Commonwealth Lottery Commission Act codified under 1 CMC §9301 of the Commonwealth Code authorized the operation of a public lottery (CNMI Lottery) in the Commonwealth. The Act also required the Office of the Public Auditor to perform quarterly audits of the CNMI Lottery under 1 CMC §9320. Operation of the public lottery began when rules and regulations for the operation of the CNMI Lottery were adopted on October 14, 1993.

The Act mandated that the CNMI Lottery be administered by a Commonwealth Lottery Commission, whose members are 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 of the CNMI. Under the Executive Order, the Secretary of Finance shall assume the administrative functions of the defunct Commission. The Secretary of Finance, however, is still required to consult with the Secretary of Commerce and the Attorney General as necessary for administration of the CNMI Lottery.

The Lottery Operator

On July 28, 1993, the CNMI Government entered into separate agreements with the Trustees of the Estate of the Late George Adams as represented by Tattersall Sweep Consultation of East Malvern Victoria Australia (Tattersall's) and with Windhoek Investments Pty. Ltd. (Windhoek), a wholly owned subsidiary of Tattersall's. The agreements authorized Tattersall's to sell its "Tatslotto" and "Super 66" lottery games, and Windhoek to sell its "Pacific Instant Lottery" in the CNMI.

On July 29, 1993, the CNMI Government issued an exclusive "Lottery Operator's License" to Tattersall's Sweep Consultation effective July 29, 1993 to July 28, 2003. The license allows Tattersall to appoint accredited representatives to sell lottery games in the CNMI. 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 and Windhoek.

On February 9, 1994, the CNMI Government entered into a Memorandum of Understanding (MOU) with TMS. The MOU set forth the rights and obligations of each party as they relate to the operation of the CNMI Lottery. Under the MOU, the CNMI Government shall receive and be compensated directly and indirectly by the payment of commission, taxes, duties and fees in an amount equivalent to at least thirty-five percent (35%) of the subscription price paid for each on-line ticket sold, and in an amount equivalent to twenty-six-and-one-half percent (26.5%) 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.

The CNMI Lottery Games

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

On-Line Games

An on-line game is one of various types of lottery game(s) which utilizes electronic equipment as a computer system to administer play, and in which a player may select; (1) a combination of more specified drawing dates. The CNMI Lottery operator then conducts a random drawing pursuant to chance, the winning combination or combination of numbers are selected, with 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 play area 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

The primary objective of the audit was to determine whether government revenues from the CNMI Lottery operations were properly computed in accordance with the terms of agreements and memorandum of understanding for the operation of the CNMI Lottery between the CNMI and Tattersall Sweep Consultation of Australia (Tattersall's) and its accredited authorized representative agent, The Mail Service, Saipan, Ltd (TMS).

The scope of our audit covered government revenues earned for the third quarter of fiscal year 1997 ending June 30, 1997. Our procedures included the independent computation and comparison of government revenues with amounts received by the CNMI. We also determined whether subscription prices of all on-line games sold and instant game tickets shipped in the CNMI during the third quarter were properly included in the computation base for government revenues. For on-line games, we relied on the weekly summary reports provided by a chartered accountant hired by TMS (in Australia) in determining subscription prices. We also reviewed the accounting records of the Department of Finance (DOF).

This performance audit was conducted at the CNMI Lottery Office and the Department of Finance in Saipan between September 2, 1997 and September 22, 1997. This audit was in accordance with generally accepted auditing standards and the standards applicable to performance

audits contained in "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 September 22, 1997.

As part of our audit, we evaluated the system of internal controls to the extent we considered necessary to accomplish the audit objective. These included internal controls over the computation, receipt, and recording of government revenues.

RESULTS OF AUDIT

Government Revenues Computed In Accordance With Terms of Agreements and MOU

Government revenues received by the CNMI from lottery operations should be computed based on the terms of agreements and memorandum of understanding (MOU) between the CNMI and the lottery operator. Our audit showed that government revenues of \$70,996 from the CNMI Lottery operations for the third quarter of fiscal year 1997 ending June 30, 1997 were properly computed in accordance with the terms of agreements and memorandum of understanding. The accompanying schedule shows a detailed summary of government revenues earned for the third quarter with cumulative totals for the three quarters of fiscal year 1997 and comparative totals for the three quarters of fiscal year 1996, after reflecting required adjustments (see APPENDIX A).

Compensation Rates

Under the terms of agreements and MOU between the CNMI, and Tattersalls and its accredited authorized representative agent, The Mail Service (TMS), the CNMI shall receive and be compensated directly and indirectly by the payment of commissions, taxes, duties and fees in an amount equivalent to at least thirty-five percent (35%) of the subscription price paid for each on-line ticket sold in the CNMI and in an amount equivalent to twenty-six-and-one-half percent (26.5%) of the subscription price of each instant game ticket shipped or delivered by TMS for sale in the CNMI.

Computation of Government Revenues

The CNMI Government received government revenues from on-line games of \$17,355 and from instant game tickets of \$53,641 or total revenues of \$70,996 for the third quarter of fiscal year 1997 ending June 30, 1997.

Our audit showed that the government revenues of \$70,996 were properly computed. We performed independent computations of government revenues and compared the results with the amounts received by the CNMI from TMS. Our comparison showed no significant differences. We also determined whether the subscription prices of all on-line games sold and instant game tickets shipped by TMS during the second quarter were properly included in the computation base. For on-line games, subscription prices were obtained from the weekly summary reports

provided by a chartered accountant hired by TMS (in Australia). For instant game tickets, the subscription prices were independently computed by multiplying the subscription rates by the number of instant game tickets shipped to the CNMI. The number of tickets shipped was verified by OPA by conducting an inventory before the tickets were sold.

Other Matters

We also reviewed the accounting records of the Department of Finance (DOF) to determine if government revenues were deposited in the CNMI bank account and properly recorded by DOF. Our review showed that government revenues earned during the third quarter were deposited in the bank. However, DOF books were not updated. At the time of our audit, DOF had not yet recorded accrued government revenues and other adjustments for the third and previous quarters amounting to \$14,962. This occurred because DOF recognized government revenues based on weekly remittance advices submitted by TMS. Official receipts are prepared by DOF to document the receipt of revenues and to serve as basis for posting into the system. However, posting of the official receipts by DOF is delayed, resulting in differences in amounts between actual government revenues earned and revenues recorded on DOF books.

Conclusion

Based on our audit, we conclude that government revenues of \$70,996 from the CNMI Lottery operations for the third quarter of fiscal year 1997 ending June 30, 1997 were properly computed in accordance with the terms of agreements and memorandum of understanding.

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This report is intended solely for the information and use of the Department of Finance of the CNMI. This restriction is not intended to limit the distribution of this report which is considered a matter of public record.

Sincerely,

ORIGINAL SIGNED

Leo L. LaMotte
Public Auditor, CNMI

cc: Governor
Lt. Governor
Eleventh CNMI Legislature (27 copies)
Secretary of Commerce, Special Assistant for Management and Budget
Elliott A. Sattler, Assistant Attorney General and Gaming Counsel
Public Information Officer
Craig J. Pattillo, 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 Third Quarter of Fiscal Year 1997 Ending June 30, 1997
(With cumulative totals for the three quarters of fiscal year 1997, and
comparative totals for the three quarters of fiscal year 1996)**

	Numbers Of Games/Tickets	Subscription Price	Compensation Rate	Third Quarter 1997	Totals 1997	Totals 1996
On-line Games:						
Saturday	92,896	\$28,505	35.0 %	\$9,977	\$33,046	\$57,990
Midweek	-	-	35.0 %	-	-	11,884
OZ Lotto	6,166	4,738	35.0 %	1,658	5,368	7,085
Keno	22,360	16,187	35.34% ¹	5,720	9,198	-
	<u>121,422</u>	<u>49,430</u>		<u>17,355</u>	<u>47,612</u>	<u>76,959</u>
Instant Game Tickets:						
Five Dollars (\$5)	1,500	4,778	26.50%	1,266	3,165	14,863
Two Dollars (\$2)	25,000	42,500	26.50%	11,263	38,294	84,429
One Dollar (\$1)	185,000	155,141	26.50%	41,112	80,002	88,610
	<u>211,500</u>	<u>\$202,419</u>		<u>53,641</u>	<u>121,461</u>	<u>187,902</u>
Government Revenues				70,996	169,073	264,861
Interest and Other Income				4,246	15,165	11,744
Total Revenue				<u>\$75,242</u>	<u>184,238</u>	<u>\$276,605</u>
Revenue Recorded on DOF Books					<u>(169,276)</u>	
Accrued Revenue Not Yet Recorded at the End of the Quarter					<u>\$14,962</u>	

¹ Average compensation rate for Keno on-line games. Actual government revenues from Keno on-line games were computed by multiplying subscription price by 26.25% plus number of games multiplied by 6.58%.