



## Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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September 16, 1998

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

Dear Secretary Nielsen:

**Subject: Final Letter Report on the Audit of Government Revenues from the CNMI Lottery Operations for the Fourth Quarter of Fiscal Year 1997 Ending September 30, 1997 (LT-98-10)**

This 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 1997 ending September 30, 1997. 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) and Numbers International Lottery (NIL).

Our audit showed that government revenues of \$81,037 from CNMI lottery operations for the fourth quarter of fiscal year 1997 ending September 30, 1997 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 \$646 and should be increased to \$81,683.

The accompanying schedule (**Appendix A**) shows a detailed summary of government revenues for the fourth quarter with cumulative totals for the four quarters of both fiscal year 1996 and 1997, after reflecting required adjustments. As explained in the body of this report, we were not able to examine copies of the lottery tickets providing the basis for the computation of government revenues reported by NIL. Accordingly, there was no assurance that government revenues received from NIL were complete.

We recommended that the Secretary of Finance (1) request NIL to correct its records and transmit to DOF the estimated net underpayment of \$646. The Secretary should also instruct NIL to maintain adequate records for tax and audit purposes; and (2) instruct the DOF Finance and Accounting Division to adjust the CNMI Lottery bank and revenue account balances to reflect the reconciling items noted by the audit.

In his letter response dated August 12, 1998 (**Appendix B**), the Acting Secretary of Finance concurred with all the recommendations, and provided OPA copies of the letter issued and adjusting journal entries made to address the recommendations.

Based on the response we received from the Acting Secretary, we consider Recommendations 1 and 2 resolved pending collection and recording of the \$646 additional commission. 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 of the CNMI. 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 two 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 game(s) which utilizes 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 combination or combination 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 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.

#### 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 on 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 being held.
- One Number Game - A one number game is also played using the same type of tickets and procedure being used for the two number games. However, as what the name of the game implies, the player only selects one number, and the prize for winning is lower.

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 being 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 its 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 winner for 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) and Numbers International Lottery (NIL). The scope of the audit covered government revenues from CNMI lottery operations for the fourth quarter of fiscal year 1997 ending September 30, 1997.

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 also 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 are 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 and did not keep copies of the lottery tickets sold during the period under audit. 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, NIL, and DOF in Saipan between November 21, 1997 and May 23, 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 May 23, 1998.

As part of our audit, we obtained an understanding of management 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. We found control weaknesses in these areas which are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve management controls.

## **FINDINGS AND RECOMMENDATIONS**

### ***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 \$81,037 from the CNMI lottery operations for the fourth quarter of fiscal year 1997 ending September 30, 1997 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 \$646 and should be increased to \$81,683.

### ***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 commission, 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.

### ***Computation of Government Revenues***

Government revenues received from CNMI lottery operators for the fourth quarter of fiscal year 1997 totaled \$81,037. Of this amount, \$35,073 was paid by TMS and \$44,360 by NIL. Our audit showed, however, that government revenues were understated by an estimated \$646 due to computation errors committed by NIL. The table below (**Table 1**) 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	\$ 12,850	\$ -	\$ 12,850
- On-line games	<u>22,223</u>	<u>-</u>	<u>22,223</u>
- Instant Tickets	<u>35,073</u>	<u>-</u>	<u>35,073</u>
NIL Jueteng			
- Two number games	6,860	81	6,941
- One number games	-	565	565
- License fees	<u>37,500</u>	<u>-</u>	<u>37,500</u>
	<u>44,360</u>	<u>646</u>	<u>45,006</u>
Interest/Other Income	1,604	-	1,604
Total	\$ 81,037	\$ 646	\$ 81,683

**Table 1**

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 net sales or cash receipts from lottery games net of the 15% commissions paid to sales and collection agents (referred 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. Copies of the original lottery tickets that can be used to identify the type of game sold were also 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. Information from the separate records from June 5 to June 24, 1998, 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	\$80,705 x 86% x 10%	=	\$ 6,941
- One number games	80,705 x 14% x 5%	=	<u>565</u>
			<u>7,506</u>
Government revenues per NIL (based on net sales)			
- Two number games	\$68,599 x 10%	=	6,860
- One number games	-	=	<u>-</u>
			<u>6,860</u>
Estimated net understatement			<u><u>\$ 646</u></u>

As a result, government revenues should be increased by the estimated net understatement of \$646 from \$81,037 to \$81,683.

**Recording of Government Revenues**

We also 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 (Table 2):

Particulars	Lottery Bank Account	Total Revenues
Unadjusted DOF balances - 9/30/97	\$ 154,913	\$ 293,874
Reconciling Items:		
1. Government revenues for 3 <sup>rd</sup> Quarter FY 1997 erroneously credited to the CNMI General Fund.	42,912	
2. Government revenues for FY 1996 erroneously recorded in FY 1997		(29,072)
3. Adjustment of miscellaneous TMS errors from prior quarters		26
4. Accrual of government revenues for 4 <sup>th</sup> Quarter 1997		447
5. Understatement of government revenues per audit		646
Adjusted Balances - 9/30/97	\$ 197,825	\$ 265,921

**Table 2**

DOF should prepare the necessary adjustments in its books to correct the reconciling items noted on Table 2 above.

**Subsequent Events**

*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. (JFF), effective January 9, 1998 to January 8, 2003. The license allowed JFF to sell 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, 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. As of the date of this report, the case is currently being heard by a hearing officer from the Department of Commerce.

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 will 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 may be renewed for one or more successive 90-day terms in order to facilitate the parties' undertaking and discharging 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 \$646 due to computation errors committed by NIL. Therefore, government revenues should be increased from \$81,037 to \$81,683. The accompanying schedule (**Appendix A**) shows a detailed summary of government revenues for the fourth quarter with cumulative totals for the four quarters of both fiscal year 1996 and 1997, after reflecting required adjustments. As explained in the body of this report, we were not able to examine copies of the lottery tickets supporting the basis for the computation of government revenues reported by NIL. Accordingly, there was no assurance that government revenues received from NIL 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 \$646. The Secretary should also instruct NIL to maintain adequate records for tax and audit purposes.
2. Instruct the DOF Finance and Accounting Division to adjust the CNMI Lottery bank and revenue account balances to reflect the reconciling items noted by the audit.

#### **DOF Response**

In his letter response dated August 12, 1998 (**Appendix B**), the Acting Secretary of Finance concurred with all the recommendations, and provided OPA copies of the letter issued and adjusting journal entries made to address the recommendations, as follows.

Recommendation 1 - The Acting Secretary of Finance issued a letter on August 12, 1998 to NIL requesting to transmit the additional \$646 that is due to the CNMI Government and to maintain a separate and adequate records for each type of game for tax and audit purposes.

Recommendation 2 - The Acting Secretary of Finance made two journal entries to adjust the CNMI Lottery bank and revenue accounts.

#### **OPA Comments**

Based on the response we received from the Acting Secretary, we consider Recommendations 1 and 2 resolved pending collection and recording of the \$646 additional commission. 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  
Victorino Catienza, Vice-President, NIL  
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 Fourth Quarter of Fiscal Year 1997 Ending September 30, 1997  
(With cumulative totals for the four quarters of fiscal year 1997, and  
comparative totals for the four quarters of fiscal year 1996)**

Lottery Games	Number of Games or Tickets Sold	Amount Subject to Commissions	Commission Rate	Revenues - Fourth Quarter 1997	Total Revenues - FY 1997	Total Revenues - FY 1996
Tattersall's						
On-Line Games						
- Saturday	73,352	\$ 21,654	35.00%	\$ 7,579	\$ 40,625	\$ 68,987
- Midweek	-	-	35.00	-	-	13,794
- OZ Lotto	6,171	4,543	35.00	1,590	6,958	8,739
- Keno	14,867	10,297	35.75	3,681	12,879	-
	<u>94,390</u>	<u>36,494</u>		<u>12,850</u>	<u>60,462</u>	<u>91,520</u>
Instant Tickets						
- Five Dollars	-	-	26.50	-	3,165	16,129
- Two Dollars	-	-	26.50	-	38,294	101,103
- One Dollar	100,000	83,860	26.50	22,223	102,225	118,448
	<u>100,000</u>	<u>83,860</u>		<u>22,223</u>	<u>143,684</u>	<u>235,680</u>
	<u>194,930</u>	<u>120,354</u>		<u>35,073</u>	<u>204,146</u>	<u>327,200</u>
NIL Jueteng						
	69,406	69,406	10.00	6,941	6,941	-
Two Number	11,299	11,299	5.00	565	565	-
One Number	-	-	-	37,500	37,500	-
License Fees						
	<u>80,705</u>	<u>80,705</u>		<u>45,006</u>	<u>45,006</u>	<u>-</u>
Interest/Other Income				<u>1,604</u>	<u>16,769</u>	<u>15,242</u>
				<u>\$ 81,683</u>	<u>\$ 265,921</u>	<u>\$ 342,442</u>



Office of the Secretary  
Department of Finance

P.O. Box 5234 CHRBSAIPAN, MP 96950

TEL. (670) 664-1100 FAX: (670) 664-1115

August 12, 1998

Mr. Leo L. LaMotte  
CNMI Public Auditor  
Office of the Public Auditor  
Commonwealth of the Northern  
Mariana Islands  
Saipan, MP 96950



SFL98-251

**RE: Response to Draft Audit Letter Report on the Audit of Government Revenues from the CNMI Lottery Operations for the Fourth Quarter of Fiscal Year 1997 Ending September 30, 1997**

Dear Mr. LaMotte:

This letter responds to the draft audit letter report on the audit of government revenues from the operations of the CNMI Lottery for the fourth quarter of Fiscal Year 1997.

The following is our specific response to your recommendations:

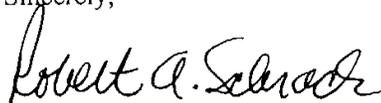
1. We have sent a letter to Mr. Victorino Catienza, Vice President of Numbers International Corporation, requesting that they remit the additional commission due the CNMI Government. A copy of the letter is enclosed for your reference.
2. In accordance with the recommendations, we have made the following adjustments to the CNMI Lottery bank and revenue accounts:
  - a) Government revenues for 3<sup>rd</sup> quarter of Fiscal Year 1997 erroneously credited to the CNMI General Fund is adjusted, debiting the Lottery bank account no. 11480 and crediting the General Fund bank account no. 11430. A copy of the journal entry is enclosed.
  - b) Government revenues for FY 1996 for \$29,072 cannot be reversed out of 1997 and entered into 1996 because FY 1996 is closed.
  - c) Miscellaneous TMS errors from prior quarters in the amount of \$26 is entered as a miscellaneous revenue. A copy of the journal entry is enclosed.

OPA NOTE: *The adjusting journal entries are no longer attached to the report.*

- d) We do not accrue lottery revenues for a prior fiscal year if the actual cash is received in the current fiscal year. Finance, therefore, did not enter this adjustment as an accrual to Fiscal Year 1997.
- e) The \$646 understatement from Numbers International Corporation will be receipted into the system when the actual deposit is made to the CNMI Lottery bank account. A copy of the deposit will be forwarded when the transaction is done.

If you have any questions on this matter, please do not hesitate to call.

Sincerely,



ROBERT A. SCRHACK  
Acting Secretary of Finance



Office of the Secretary  
Department of Finance

P.O. Box 5234 CHRBSAIPAN, MP 96950

TEL. (670) 664-1100 FAX (670) 664-1115

August 12, 1998

SFI.98-250

Mr. Victorino Catienna  
Vice President,  
Numbers International Corporation  
Mailier 673 Box 10005 C.K.  
Saipan, MP 96950

Dear Mr. Catienna:

The CNMI Public Auditor has issued its draft letter report on the audit of government revenues from the CNMI Lottery Operations for the fourth quarter of Fiscal Year 1997, ending September 30, 1997. The Public Auditor noted that Numbers International Corporation (NIC) understated the revenues due the CNMI Government by approximately \$646. This understatement resulted from NIC computing 1) government revenues based on net sales, instead of gross sales, and 2) government revenues using the ten percent commission rate for both games, although one of the games was subject to a five percent commission rate. In accordance with the Public Auditor's report, I am requesting that you transmit the additional \$646 that is due to the CNMI Government.

The draft audit report also noted NIC may not be keeping adequate records for tax and audit purposes. Please note that the Public Auditor conducts quarterly audits on the activities of the CNMI Lottery. You must, therefore, maintain separate and accurate records for each type of game.

Please provide us a copy of the deposit transmittal of the additional \$646 due the CNMI Government for the period ended September 30, 1997.

Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Robert A. Schrack".

ROBERT A. SCHRACK  
Acting Secretary of Finance

cc: CNMI Public Auditor

**Audit of Government Revenues from the CNMI Lottery Operations  
For the Fourth Quarter of Fiscal Year 1997 Ending September 30, 1997**

**STATUS OF RECOMMENDATIONS**

Recommendations	Agency to Act	Status	Agency Response/ Additional Information or Action Required
<p>1. Request NIL to correct its records and transmit to DOF the estimated net underpayment of \$646. The Secretary should also instruct NIL to maintain adequate records for tax and audit purposes.</p>	<p>DOF</p>	<p>Resolved</p>	<p>The acting Secretary of Finance concurred with all the recommendations, and provided OPA copies of the letter issued and adjusting journal entries made to addresses the recommendations. For Recommendation 1, a letter was issued on August 12, 1998 to NIL requesting to transmit the additional \$646 that is due to the CNMI Government, and to maintain a separate and adequate records for each type of game for tax and audit purposes. For Recommendation 2, two journal entries were made to adjust the CNMI Lottery bank and revenue accounts.</p>
<p>2. Instruct the DOF Finance and Accounting Division to adjust the CNMI Lottery bank and revenue account balances to reflect the reconciling items noted by the audit.</p>	<p>DOF</p>	<p>Resolved</p>	<p><i>Further Action Required</i></p> <p>Recommendation 1 - Provide OPA a copy of the CNMI Treasury official receipt showing collection of the \$646 additional commission due to the CNMI Government.</p> <p>Recommendation 2 - Provide OPA a copy of the journal entry to record the \$646 additional commission.</p>