



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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November 2, 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 Third Quarter of Fiscal Year 1998 Ending June 30, 1998 (LT-99-09)

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 third quarter of fiscal year 1998 ending June 30, 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 \$193,497 from CNMI lottery operations for the third quarter of fiscal year 1998 ending June 30, 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 \$4,807 and should be increased to \$198,304.

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 third quarter of fiscal year 1998 ending June 30, 1998 with cumulative totals for the three 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 \$4,807; (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) 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.

In her letter response dated September 8, 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 \$4,807 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 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 in 2 designated boxes printed on each ticket. The player 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 procedures 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 third quarter of fiscal year 1998 ending June 30, 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, JFF, and DOF in Saipan between February 22, 1999 and May 21, 1999. 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 21, 1999.

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 agreement between the CNMI Government and the CNMI lottery operators. Our audit showed that government revenues of \$193,497 from the CNMI lottery operations for the third quarter of fiscal year 1998 ending June 30, 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 compensation rate although one of the games was subject to only a 5 percent rate. As a result, government revenues were understated by an estimated \$4,807 and should be increased to \$198,304.

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 third quarter of fiscal year 1998 totaled \$193,497. Of this amount, \$35,459 was paid by TMS, \$78,557 by NIL, and \$76,435 by JFF. Our audit showed, however, that government revenues were understated by an estimated \$4,807 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	\$10,880	-	\$10,880
• Instant Tickets	24,579	-	24,579
Sub-Total	\$35,459	\$0	\$35,459
NIL Jueteng			
• Two number games	\$40,174	\$2,211	\$42,385
• One number games	883	2,596	3,479
• License fee	37,500	-	37,500
Sub-total	\$78,557	\$4,807	\$83,364
JFF Jueteng			
• Two number games	\$37,203	-	\$37,203
• One number games	1,732	-	1,732
• License fee	37,500	-	37,500
Sub-total	\$76,435	\$0	\$76,435
Interest/Other Income	\$3,046	-	\$3,046
TOTAL	\$193,497	\$4,807	\$198,304

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 compensation rate although one of the games was subject to only 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 percent 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 starting June 4, 1998. NIL continued through June 30, 1998, however, to compute government revenues based on net sales instead of gross sales and the practice of not keeping copies of tickets sold. Based on the first four months where NIL maintained separate records for each type of game (from June 4 to September 30, 1998), information 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 from April 1 to June 3, 1998 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 Basis (Gross)	Amount	Per NIL Basis (Net)	Amount	NIL Underpayment
Sales from 4/1/98 - 6/3/98					
- Two number games	\$348,386 x 86% x 10%	\$29,961	\$296,128 x 10%	\$29,613	\$ 348
- One number games	348,386 x 14% x 5%	2,439	-	0	2,439
Sub-total		\$32,400		\$29,613	\$2,787
Sales from 6/4/98 - 6/30/98					
- Two number games	\$124,241 x 10%	\$12,424	\$105,605 x 10%	\$10,561	\$1,863
- One number games	20,793 x 5%	1,040	17,674 x 5%	883	157
Sub-total		\$13,464		\$11,444	\$2,020
TOTAL		\$45,864		\$41,057	\$4,807

As a result, government revenues should be increased by the estimated net understatement of \$4,807 from \$193,497 to \$198,304.

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 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 disposed of all used tickets on a periodic basis. At the request of OPA, NIL began retaining copies of tickets sold starting July 1, 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, amount of commissions credited against the Business Gross Receipt Tax, and any 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 it is impossible to account for the actual number of tickets sold because JFF sold tickets in different number series and not in sequence, and various types of tickets were printed, *i.e.*, in different colors - dark blue, light blue, or red; and different formats, *i.e.*, either in 4 or 5 quantities per ticket number (assigning *A* to *D* or *A* to *E*, respectively, after the number). For example, in our previous quarter's review of lottery tickets sold during the three consecutive days, we noted that ticket series # 841111 to 841128 were sold on March 11, 1998 while ticket # 8133760 - a higher seven-digit number - 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 was not included as tickets sold on selected days we tested. This occurred because the lottery operators and 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.

Response to the Finding

In the previous quarter's audit (OPA Report No. LT-99-05, issued on May 11, 1999), we recommended that the Secretary of Finance 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. The Secretary of Finance concurred with that recommendation and provided OPA copies of the letters issued to address the recommendation. The response did not close the recommendation pending receipt of copies of the written procedures and monitoring log sheets established and implemented by DOF, NIL, and JFF. In May 1999, JFF initially provided DOF and OPA copies of the proposed monitoring log sheets and samples of the proposed tickets. Based on OPA's initial review, the proposed documents needed further improvement for efficiency and to better monitor completeness of lottery sales (*e.g.*, changing the ticket format into assigning a different number for each ticket instead of using the same number for five tickets and differentiating them only by assigning *A* to *E* after the number, and consolidating two proposed monitoring log sheets (printed tickets and tickets issued to agents) into one to better monitor the sequential distribution of

printed tickets to agents). The initial comments were communicated by OPA to DOF and JFF on May 26, 1999. On June 7, 1999, JFF provided DOF and OPA copies or samples of the proposed revised monitoring log sheets and tickets for DOF's approval, after considering OPA's recommended formats. Subsequently, DOF worked to develop the written procedures OPA had earlier recommended.

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

Particulars	Lottery Bank Account	Total Revenues
Unadjusted DOF balances - 06/30/98	\$474,091	\$276,302
Reconciling Items:		
• Government revenues earned in 3 rd Quarter FY 1997 recorded in 3 rd Quarter FY 1998		(25)
• Notary fees erroneously recorded under lottery account ^a		(25)
3. Government revenues received but not recorded by DOF as of 6/30/98		
- 4 th Quarter FY 1997 ^b	447	
- 1 st Quarter FY 1998 ^c	37,500	37,500
- 2 nd Quarter FY 1998 ^c	55,780	55,780
- 3 rd Quarter FY 1998 ^d	137,492	137,492
4. Accrual of government revenues for 3 rd Quarter FY 1998 ^d		15,458
5. License fee of JFF for 2 nd and 3 rd Quarters FY 1998 received but not deposited and recorded by DOF as of 6/30/98 ^e		75,000
6. Interest earned and other income received but not recorded by DOF as of 6/30/98		
- 2 nd Quarter FY 1998 ^d	35	35
- 3 rd Quarter FY 1998 ^d	3,046	3,046
7. Understatement of government revenues for FY 1998, per audit		
- 1 st Quarter FY 1998 ^f		3,946
- 2 nd Quarter FY 1998		4,273
- 3 rd Quarter FY 1998		4,807
8. Government revenues for 1 st and 2 nd Quarters recorded twice ^c	(80,870)	(80,870)
Adjusted Balances - 06/30/98	\$627,521	\$532,719

Notes:

- Adjusted by DOF on September 30, 1998.
- In response to our recommendation in the 1st Qtr. FY 1998 audit, DOF made a journal entry on September 30, 1998 to adjust this reconciling item.
- Recorded or adjusted by DOF on September 18, 1998 except for the \$572 understatement in recording of government revenues.
- Recorded by DOF on September 30, 1998 except for \$10,934 commission from instant tickets.
- See finding C for details.
- In response to our previous audits' recommendation, DOF recorded \$3,946 on March 31, 1999, and collected the additional \$4,273 from NIL who deposited the amount to the CNMI lottery bank account on April 27, 1999.

C. Other Matters

Issuance of Additional Lottery Operator's License

On January 9, 1998, the former Acting Secretary of Finance issued a 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 revoke JFF's license because it was not in compliance with its Lottery Operator's Agreement. This claim was subsequently dropped, however, by DOF. On July 15, 1998 DOF issued an Administrative Order annulling JFF's lottery license because it infringed on the exclusive license already issued to Tattersall's. On August 14, 1998, JFF appealed the Order to the Superior Court and filed a motion for stay. On June 14, 1999, the Superior Court reversed DOF's order and directed that JFF's lottery license be reinstated consistent with its ruling. The Court decision held that DOF's actions in revoking JFF's lottery license exceeded DOF's authority under the Lottery Act and was therefore invalid, since there is no language in the Act which limits the issuance of lottery licenses or confers any power to DOF to award a lottery license exclusively to one company.

On December 18, 1998, OPA 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. On December 28, 1998 the CNMI Treasury deposited the \$75,000 check after AGO approved that deposit.

OPA will review NIL and JFF's compliance with their lottery operator's agreements with DOF. A separate report covering this matter 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

periods 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 \$4,807 due to computation errors committed by NIL. Therefore, government revenues should be increased from \$193,497 to \$198,304. The accompanying schedule (**Appendix A**) shows a detailed summary of government revenues for the third quarter of fiscal year 1998 ending June 30, 1998 with cumulative totals for the three 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 \$4,807.
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.

DOF Response

In her letter response dated September 8, 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 and draft proposed policies and procedures made to address the recommendations, as follows.

Recommendation 1 - The Secretary of Finance issued a letter on August 26, 1999 to NIL requesting transmittal of the additional \$4,807 that is due to the CNMI Government. That amount was deposited by NIL to the CNMI lottery bank account on August 30, 1999.

Recommendation 2 - The Secretary of Finance made the necessary journal entries to adjust some of the reconciling items noted by the audit.

Recommendation 3 - The Secretary of Finance issued letters on September 8, 1999 to NIL and JFF, respectively, to start implementing OPA's proposed revised log sheets and tickets. A copy of DOF's draft proposed policies and procedures on this matter was enclosed in DOF's response to OPA.

OPA Comments

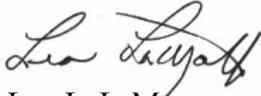
Based on the response we received from the Secretary, we consider Recommendation 1 closed. Recommendations 2 and 3 are considered resolved pending recording of the additional adjustments and implementation of control procedures. Based on OPA's initial review, the proposed policies and procedures needed further improvement for a more accurate execution of the procedures (*e.g.*, identifying the assigned individual responsible for a certain procedure [either the lottery operator, agent, or DOF], and making the procedures more specific). OPA's initial comments were subsequently communicated to DOF. OPA also conducted separate meetings with JFF and NIL, respectively, in the presence of a DOF representative, to obtain results of their implementation of OPA's proposed revised log sheets and tickets. NIL stated that its main problem was how to make agents accountable for all tickets issued to them, *i.e.*, requiring return of either ticket sale proceeds or unsold tickets. OPA responded that this concern could be addressed only thru a strict enforcement of the procedures, without exception. Other matters discussed include developing procedures to facilitate review of "tickets sold by agents" such as sorting tickets sold daily by each agent.

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
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 Third Quarter of Fiscal Year 1998 Ending June 30, 1998**

(With cumulative totals for the three quarters of fiscal year 1998, and
comparative totals for the three quarters of fiscal year 1997)

Lottery Games	Number of Games or Tickets Sold	Amount Subject to Commissions	Commission Rate (%)	Revenues Third Quarter 1998	Total Revenues FY 1998	Total Revenues FY 1997
Tattersall's						
On-Line Games						
• Saturday	87,082	\$22,100	35.00	\$7,735	\$23,423	\$33,046
- Midweek	-	-	35.00	-	-	-
• OZ Lotto	6,446	4,075	35.00	1,426	4,850	5,368
• Keno	7,756	4,606	37.32	1,719	6,166	9,198
Sub-total	101,284	\$30,781		\$10,880	\$34,439	\$47,612
Instant Tickets						
• Five Dollars	1,400	\$4,459	26.50	1,182	1,182	\$3,165
• Two Dollars	3,000	5,100	26.50	1,352	3,604	38,294
• One Dollar	99,200	83,189	26.50	22,045	73,158	80,002
Sub-total	103,600	\$92,748		\$24,579	\$77,944	\$121,461
Total Tattersall's	204,884	\$123,529		\$35,459	\$112,383	\$169,073
NIL Jueteng						
Two Number	423,853	\$423,853	10.00	\$42,385	\$130,688	-
One Number	69,567	69,567	5.00	3,479	10,667	-
License Fees	-	-	-	37,500	112,500	-
Total NIL Jueteng	493,420	\$493,420		\$83,364	\$253,855	-
JFF Jueteng						
Two Number	372,025	\$372,025	10.00	\$37,203	\$81,432	-
One Number	34,644	34,644	5.00	1,732	3,047	-
License Fees	-	-	-	37,500	75,000	-
Total JFF Jueteng	406,669	\$406,669		\$76,435	\$159,479	-
Interest/Other Income				\$3,046	\$7,002	\$15,165
GRAND TOTAL				\$198,304	\$532,719	\$184,238



Office of the Secretary
Department of Finance

P.O. Box 5234 CHR8 SAIPAN MP 96950

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September 8, 1999

SFL99-378

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

**RE: Response to Draft Audit Report on the Audit of Government Revenues from the
CNMI Lottery Operations for the Third Quarter of Fiscal Year 1998 Ending
June 30, 1998**

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 third quarter of Fiscal Year 1998

The following is our specific response to your recommendations

- 1 We sent a letter to Ms Norma Arnold, President of Numbers International Corporation, on August 26, 1999 requesting that they remit the additional commission due the CNMI Government. NIL subsequently, made a deposit on August 30, 1999 in the amount of \$4,807.00 for the additional commission due. A copy of the letter and the deposit slip are 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 3rd quarter of Fiscal Year 1998 understatement in recording of \$592.66 is adjusted, debiting the Lottery bank account no 1010 11480 and crediting the lottery commission account no 3760 45710. A copy of the journal entry is enclosed
 - b) Government revenues overstatement of \$20.00 (over posting) January 1998 for Just For Fun Lottery was adjusted in 9/30/98 debiting the lottery commission account no 3760 45710 and crediting the lottery bank account no 1010 11480. A copy of the journal entry is enclosed

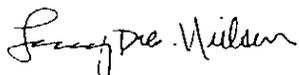
*OPA NOTE: The following documents are no longer attached to the report:
deposit slip, adjusting entries, and draft proposed policies and procedures.*

- c) Government revenues duplicate entry for June 6, 1998 revenue of \$653 78 for TMS is adjusted as of 7/31/99, debiting the lottery commission account no 3760 45710 \$491 77, lottery BGRT account no 3760 40110 \$162 01 and crediting the lottery bank account no 1010 11480 \$653 78. A copy of the journal entry is enclosed

- d) We have sent letters to Ms. Norma Arnold, President of Numbers International Corp and Mr. Juan M. Cabrera, President of Just For Fun Lottery regarding pending recommendations relating to the development and implementation of monitoring log sheets by DOF, NIL, and JFF, in ensuring that tickets printed and issued to agents are controlled and that sold and unsold tickets are accounted for on a regular basis. A copy of the letters are enclosed for your reference and a copy of the draft proposed policy and procedure for tickets printed and monitoring log sheets.

Should you need additional information or have any questions please let us know

Sincerely,



Lucy DLG Nielsen
Secretary of Finance



Office of the Secretary
Department of Finance

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

August 26, 1999

SFL99-364

Ms. Norma Arnold
President
Numbers International Inc.
Mailex 673 Box 10005 CK
Saipan, MP 96950

RE: Audit findings for the Third Quarter of Fiscal Year 1998
Ending June 30, 1998

Dear Ms. Arnold

The CNMI Public Auditor has issued its draft letter report on the audit of government revenues from the CNMI Lottery Operations for the third quarter of Fiscal Year 1998, ending June 30, 1998. The Public Auditor noted that Numbers International Lottery (NIL) understated the revenues by \$4,807.00 due to computation errors. This occurred because NIL (1) computed government revenues based on net sales instead of gross sales, and (2) computed government revenues from 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 a sales or cash receipts from lottery games net of the 15 percent commissions paid to sales and collection agents. NIL failed to separate sales of two number games from one number games and multiplied the 10 percent commission rate for the two number games with the total sales amount, however under the Lottery Operator's Agreement, the one number games are subject only to a 5 percent commission rate.

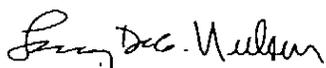
The draft audit report also noted that NIL did not maintain separate records for each game type and still did not keep copies of tickets sold for period under audit as previously recommended in 2nd quarter's audit report. NIL began maintaining separate records for the two types of games starting June 4, 1998 and continued on through June 30, 1998, however, the computation of government revenues based on net sales instead of gross sales and the practice of not keeping copies of tickets sold was still not addressed.

In accordance with the Public Auditor's report, I am requesting that you correct your records and deposit the estimated net underpayment of \$4,807.00 in the CNMI Lottery Commission account at Bank of Guam.

Please provide us a copy of the deposit slip of the additional \$4,807.00 due the CNMI Government for the period ended June 30, 1998.

Should you need additional information on the above matter, please give us a call.

Sincerely,

A handwritten signature in cursive script that reads "Lucy DLG Nielsen".

Lucy DLG Nielsen
Secretary of Finance



Office of the Secretary
Department of Finance

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

September 8, 1999

SFL99-379

Ms. Norma Arnold
President
Numbers International Lottery
Mailex 673 Box 10005 CK
Saipan, MP. 96950

RE: Update on the status of Recommendation 3 - Audit of Government
Revenues from the CNMI Lottery Operations for the Second Quarter
Of Fiscal Year 1998 Ending March 31, 1998 (LT-99-05)

Dear Ms Arnold:

This is in reference to recommendation 3 of the above subject report from the Public Auditor's office advising the Secretary of Finance to require both lottery operator's (NIL & JFF) to ensure that the quantity of tickets printed and issued to agents are controlled, and that sold and unsold tickets are accounted for. This can be accomplished by the use of different monitoring log sheets signed by the printing company, lottery operator, or agents (depending on the log sheets) and reviewed by the Department of Finance monthly. A letter was sent to your office on April 21, 1999 addressing the above issues

The Department of Finance has not received your proposed monitoring log sheets to be used for accountability of tickets printed and issued to agents and tickets sold and unsold by agents

However, in reviewing the proposed log sheets and tickets submitted by JFF with the Public Auditor's staff, OPA recommended that information in monitoring log sheets no. 1 and 2 be consolidated into one for efficiency and to better monitor the distributions of printed tickets to agents. Furthermore, the SOF's office recommended that monitoring log sheet no. 3 should be prepared "per agent" instead of per collector," and should include information on tickets issued to agents (series and quantity) for accountability of sold, unsold, and voided. See Appendix A for samples of OPA's revised proposed tickets and Appendix B and C for the recommended log sheets to be used

Because Numbers International Lottery operates the same type of games (JUETENG) as Just for Fun, the proposed tickets and monitoring log sheets submitted by JFF and revised by the Public Auditor's office should be implemented by your organization as well. Please review the enclosed revised log sheets and samples of the proposed tickets

Based on The Public Auditor's recommendations and our concurrence, the Secretary of Finance has informed Just For Fun Lottery to comply with the written procedures established and provided by DOF effective immediately to ensure stricter monitoring control of printed tickets, issuance of tickets to agents, and sold and unsold tickets are accounted for.

Should you need additional information or have any questions on this matter, please give us a call

Sincerely,



Lucy DLG Nielsen
Secretary of Finance

xc: Leo L. LaMotte
CNMI Public Auditor



Office of the Secretary
Department of Finance

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September 8, 1999

SFL99-380

Mr Juan M Cabrera
President
Just For Fun Lottery
EPS 628 Box 10012 CK
Saipan, MP. 96950

RE: Update on the status of Recommendation 3 - Audit of Government
Revenues from the CNMI Lottery Operations for the Second Quarter
Of Fiscal Year 1998 Ending March 31, 1998 (LT-99-05)

Dear Mr. Cabrera

This is in reference to recommendation 3 of the above subject report from the Public Auditor's office advising the Secretary of Finance to require both lottery operators (NIL & JFF) to ensure that the quantity of tickets printed and issued to agents are controlled, and that sold and unsold tickets are accounted for. This can be accomplished by the use of different monitoring log sheets signed by the printing company, lottery operator, or agents (depending on the log sheets) and reviewed by the Department of Finance monthly. A letter was sent to your office on April 21, 1999 addressing the above issues.

On May 12, 1999, Connie A. Salas (SOF staff) and two OPA staff members visited the JFF's office in connection with the quarterly audit. Your office provided OPA and SOF copies of the proposed monitoring log sheets and samples of the proposed tickets followed on May 18, 1999.

In reviewing the proposed log sheets and tickets with the Public Auditor's staff, they recommended that information in monitoring log sheets no. 1 and 2 be consolidated into one for efficiency and to better monitor the distributions of printed tickets to agents. Furthermore, the SOF's office recommended that monitoring log sheet no. 3 should be prepared "per agent" instead of per collector, and should include information on tickets issued to agents (series and quantity) so that the sold, unsold, and voided tickets are accounted for. See Appendix A for samples of OPA's proposed revised tickets and Appendix B and C for the recommended log sheets to be used.

We advise that you start implementing the enclosed log sheets and tickets effective immediately. If you have any questions on the above, please don't hesitate to call our office.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lucy DLG Nielsen".

Lucy DLG Nielsen
Secretary of Finance

cc: Leo L. LaMotte

**Audit of Government Revenues from the CNMI Lottery Operations
For the Third Quarter of Fiscal Year 1998 Ending June 30, 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 \$4,807.	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 and draft proposed policies and procedures developed to address the recommendations. For Recommendation 1, a letter was issued on August 26, 1999 to NIL requesting transmittal of the additional \$4,807 that is due to the CNMI Government. That amount was deposited by NIL to the CNMI lottery bank account on August 30, 1999. For Recommendation 2, necessary journal entries were made to adjust some of the reconciling items noted by the audit. For Recommendation 3, letters were issued on September 8, 1999 to NIL and JFF, respectively, to start implementing OPA's proposed revised log sheets and tickets. A copy of DOF's draft proposed policies and procedures on this matter was enclosed in DOF's response to OPA. Based on OPA's initial review, the proposed policies and procedures needed further improvement for a more accurate execution of the procedures (e.g., identifying the assigned individual responsible for a certain procedure [either the lottery operator, agent, or DOF], and making the procedures more specific). OPA's initial comments were subsequently communicated to DOF. OPA also conducted separate meetings with JFF and NIL, respectively, in the presence of a DOF representative, to obtain results of their implementation of OPA's proposed revised log sheets and tickets. NIL stated that its main problem was how to make agents accountable for all tickets issued to them, i.e., requiring return of either ticket sale proceeds or unsold tickets. OPA responded that this concern could be addressed only thru strict enforcement of the procedures, without exception. Other matters discussed include developing procedures to facilitate review of "tickets sold by agents" such as sorting tickets sold daily by each agent.
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	Further Actions Required Recommendation 2 - Provide OPA copies of the remaining journal entries to adjust the reconciling items noted by the audit. Recommendation 3 - Provide OPA a copy of the final policies and procedures and copies of documents from NIL and JFF evidencing implementation of the policies and procedures.
<ul style="list-style-type: none"> 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. 	DOF	Resolved	Further Actions Required Recommendation 2 - Provide OPA copies of the remaining journal entries to adjust the reconciling items noted by the audit. Recommendation 3 - Provide OPA a copy of the final policies and procedures and copies of documents from NIL and JFF evidencing implementation of the policies and procedures.