

Office of the State Auditor

Division of State Audit

North Dakota Lottery Bismarck, North Dakota

Audit Report for the
Years Ended June 30, 2006 and 2005
Client Code 125.1

Robert R. Peterson
State Auditor



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INDEPENDENT AUDITOR'S REPORT

Honorable John Hoeven, Governor
Members of the Legislative Assembly

Chuck Keller, Director
North Dakota Lottery

We have audited the accompanying financial statements of the North Dakota Lottery, a division of the Office of the Attorney General, state of North Dakota, as of and for the fiscal years ended June 30, 2006 and 2005, which collectively comprise the North Dakota Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Dakota Lottery management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the North Dakota Lottery are intended to present the financial position, and the changes in the financial position and cash flows of only that portion of the business-type activities of the state of North Dakota that are attributable to the transactions of the North Dakota Lottery. They do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2006, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota Lottery, as of June 30, 2006 and 2005, and the respective changes in the financial position and cash flows thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2006, on our consideration of the North Dakota Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robert R. Peterson
State Auditor

November 6, 2006

NORTH DAKOTA LOTTERY

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

This Management's Discussion and Analysis is for readers of the Lottery's financial statements and is an overview of the Lottery's financial activity for the fiscal year ended June 30, 2006. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activity based on facts, decisions, and conditions that presently face the director.

Understanding the Lottery's Financial Statements

The Lottery, a division of the Office of Attorney General, is accounted for as an enterprise fund that reports all income, expense, assets, and liabilities using the accrual basis of accounting, like a private business entity. In accordance with generally accepted accounting principles, this report consists of three financial statements and explanatory notes. The financial statements are: 1) Statement of Net Assets; 2) Statement of Revenues, Expenses, and Changes in Net Assets; and 3) Statement of Cash Flows. The financial statements are designed to highlight the Lottery's operating activity and provide a snapshot of its financial condition.

A vital factor of the Lottery's financial statements is a statutory requirement that the Lottery transfer all net proceeds, less the amount allocated to the compulsive gambling prevention and treatment fund and a holdback of any reserve funds the director may need for continuing operations, to the State Treasurer on at least an annual basis for deposit in the state general fund. Accordingly, the primary focus of these financial statements is to determine the net proceeds that are available for transfer to the state general fund. It is also important to note that most financial statement balances have a direct or indirect relationship to revenue. As lottery sales increase, the amount to be transferred to the state general fund would also increase. Similarly, as lottery sales increase, there is a direct increase in prizes, retailer commissions, game group dues, and vendor fees.

Most of the assets included on the Statements of Net Assets represent current amounts such as cash and accounts receivable from lottery retailers. Most liabilities represent current prizes, including prizes payable in North Dakota, and an amount due to the state general fund.

Financial Highlights

The Lottery is unique compared to all other state lotteries because it may only conduct multi-state online games. The constitution restricts the Lottery to multi-state games. The law restricts the Lottery to online games. Therefore, the Lottery may not conduct common in-state lotto games, instant ticket games, or pick 3 or 4 numbers games.

The Lottery is relatively new. The Lottery enjoys broad public support in the play of its games and has achieved exceptional success in sales and net proceeds during its first two and one-third years. The challenge facing the Lottery is to increase sales and net

proceeds by actively promoting sales of tickets for present and new games in a very competitive retail environment.

The Lottery launched its first game of Powerball on March 25, 2004; its second game of Hot Lotto on June 24, 2004, its third game of Wild Card 2 on September 23, 2004; and its fourth game of 2by2 on February 2, 2006.

Total prizes on winning tickets for the fiscal year ended June 30, 2006, were \$11,044,222, including prizes payable in North Dakota of \$10,045,820 and prizes payable to the MUSL to fund grand prizes of \$1,350,731. In addition, North Dakota had expired prizes in the amount of \$352,329.

When the Lottery adds a new game, a greater portion of each dollar of sales goes toward net proceeds since operating expenses like salaries and fringe benefits, travel, telephone, and MUSL board dues are generally fixed and would not necessarily increase incremental to sales. Some operating expenses like advertising and marketing would increase. There are variable expenses that have a direct incremental relationship to sales like prizes, retailer commissions, game group dues, and vendor fees.

The Lottery's operating expenses are minimized because the Lottery blueprinted its organizational structure, functions, and gaming system features to optimize efficiency.

The Lottery earned \$6,922,984 of net proceeds. Of that amount, \$200,000 was transferred to the compulsive gambling fund; \$204,409 was transferred to the MUSL for the prize reserve pools and unreserved account; and \$6,300,000 was transferred to the state general fund. It was initially projected that the Lottery would generate \$10 million for the state general fund during the 2005-2007 biennium.

Overview of the Financial Statements

Statement of Net Assets Summary:

	<u>6/30/2006</u>	<u>6/30/2005</u>
Total Current Assets	\$7,307,726	\$6,493,820
Total Noncurrent Assets	<u>743,618</u>	<u>536,001</u>
Total Assets	<u>\$8,051,344</u>	<u>\$7,029,821</u>
Total Current Liabilities	\$7,087,184	\$6,513,750
Total Noncurrent Liabilities	<u>79,334</u>	<u>54,229</u>
Total Liabilities	<u>\$7,166,518</u>	<u>\$6,567,979</u>
Total Unrestricted Assets	<u>\$ 884,826</u>	<u>\$ 461,842</u>

Statement of Revenues, Expenses, and Changes in Net Assets Summary:

	<u>6/30/2006</u>	<u>6/30/2005</u>
Total Operating Revenue	\$22,413,359	\$19,223,089
Total Operating Expense	<u>15,622,027</u>	<u>12,818,529</u>
Operating Income	\$ 6,791,332	\$ 6,404,560
Total Non-Operating Income	<u>131,652</u>	<u>60,335</u>
Net Proceeds before Operating Transfers	<u>\$ 6,922,984</u>	<u>\$ 6,464,895</u>

Total Transfers to Other Funds	<u>6,500,000</u>	<u>6,098,494</u>
Change in Net Assets	\$ 422,984	\$ 366,401
Total Net Assets, Beginning of Year	<u>461,842</u>	<u>95,441</u>
Total Net Assets, End of Year	<u>\$ 884,826</u>	<u>\$ 461,842</u>

Revenue:

	<u>6/30/2006</u>	<u>6/30/2005</u>
Powerball Ticket Sales	\$15,419,401	\$13,207,729
Hot Lotto Ticket Sales	2,730,714	3,898,592
Wild Card 2 Ticket Sales	2,192,519	2,020,969
2by2 Ticket Sales	<u>1,985,719</u>	<u>0</u>
Total Ticket Sales	\$22,328,353	\$19,127,290
Other Operating Revenue	<u>85,006</u>	<u>95,799</u>
Total Revenue	<u>\$22,413,359</u>	<u>\$19,223,089</u>

Expenses:

	<u>6/30/2006</u>	<u>6/30/2005</u>
Prize Expense	\$11,044,222	\$ 9,085,551
Retailer Commissions	1,115,826	956,365
Retailer Bonuses	41,250	0
Operating Expenses	<u>3,420,729</u>	<u>2,776,613</u>
Total Expenses	<u>\$15,622,027</u>	<u>\$12,818,529</u>

Net Proceeds:

Net Proceeds before Operating Transfers	\$6,922,984	\$6,464,895
Percent of Net Proceeds to Total Operating Revenue	30.9%	33.6%

Online Gaming System

The Lottery executed an eight-year contract, effective March 25, 2004, with Scientific Games International, Inc. (Scientific Games) to provide the Lottery with online and secondary online gaming systems hardware, games management system software (GMS), satellite-based retailer telecommunications network, four hundred lottery terminals, electronic scrolling and logo backlit signs, primary and secondary internal control systems (ICS), and five field technicians to provide service to lottery retailers. The Lottery does not own any of this equipment. The GMS manages retailers and tracks and controls the sale of tickets, validation of winning tickets, and payments on winning tickets. The ICS's are independent databases of all retailer sales transactions that are controlled only by the Lottery, and are used for each draw to determine the number of winning tickets, by prize value.

The Lottery's online and secondary online gaming systems are co-located with the primary and secondary online gaming systems of the Oklahoma Lottery at a computer data center located in Oklahoma City, OK. The computer data center is managed by Scientific Games which is the gaming system vendor for both the Oklahoma Lottery and North Dakota Lottery.

Potential Factors Affecting Future Operations

By law, the Lottery is restricted to multi-state online games. The Lottery must partner with one or more other government-authorized lotteries to conduct a game. This restriction generally limits the Lottery to games sponsored by the MUSL. The MUSL may not have a broad range of games available to fulfill the Lottery's desired product mix or the MUSL's games may become stale. Should the MUSL disband, although it is not anticipated, the Lottery would not have a source of games to conduct.

Looking Ahead

The Lottery's primary goal is to maximize revenue for the state general fund. To accomplish this, the Lottery must offer exciting and attractive games that add value to the Lottery's product mix for players to play, license retailers that are in convenient locations to sell tickets, create effective annual marketing plans, provide quality customer service to retailers and players, and control operating expenses. To be attractive, games must be interesting to play and have a broad range of player odds and minimum jackpot prizes.

Total sales of a game are dramatically affected by the size of the game's jackpot and, to a lesser degree, on the odds of winning a prize. Larger jackpots generate higher sales. However, larger jackpots cannot be predicted or counted upon. Therefore, a variety of games with varying jackpots and odds of winning a prize is necessary to attract players.

The Lottery has 400 licensed retailers located in 127 towns and cities, including all fifty-three counties. This is about 1 lottery terminal for each 1,586 residents.

During the 2005-2007 biennium, the Lottery plans to:

1. Generate sales of tickets of \$38.5 million and state general fund revenue of \$10 million;
2. Develop an inspiring slogan;
3. Develop and conduct effective marketing promotions and public awareness campaigns;
4. Develop an active and effective retailer outreach program;
5. Work closely with the Lottery Advisory Commission and Retailer Advisory Board;
6. Establish a responsive disaster recovery and efficient user acceptance testing site for any disaster and new software releases of the Games Management System at the online gaming system vendor's computer data center in Oklahoma City, OK;
7. Establish a subscription service for all games to enable players to prepay, including through Internet online applications, and be automatically entered into draws for future periods of 13, 26, or 52 weeks; and
8. Conduct public and player surveys about the Lottery.

Compulsive Gambling Prevention and Treatment Fund

By law, starting July 1, 2005, fifty thousand dollars must be transferred to the State Treasurer each quarter for deposit in the compulsive gambling prevention and treatment fund.

The Lottery is sensitive to problem gambling and encourages players to play responsibly.

Contacting the Lottery

If a person has a question on any information in this report or desires additional information, the person should write to: North Dakota Lottery; Office of Attorney General; 600 E. Boulevard Avenue - Dept. 125; Bismarck, ND 58505-0040.

North Dakota Lottery
Statement of Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 6,539,715	\$ 6,355,745
Investments		1,000
Accounts Receivable	760,579	132,461
Due From Other State Funds	372	
Prepaid Expenses	7,060	4,614
Total Current Assets	\$ 7,307,726	\$ 6,493,820
Noncurrent Assets:		
Reserves on Deposit	\$ 743,618	\$ 536,001
Total Noncurrent Assets	\$ 743,618	\$ 536,001
Total Assets	\$ 8,051,344	\$ 7,029,821
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 180,972	\$ 290,539
Due to Other State Funds	6,303,108	5,844,362
Accrued Payroll	51,875	32,829
Prizes Payable	361,715	240,418
Deferred Revenue	182,908	93,637
Retailer Security Deposits		1,000
Compensated Absences Payable	6,606	10,965
Total Current Liabilities	\$ 7,087,184	\$ 6,513,750
Noncurrent Liabilities:		
Compensated Absences Payable	\$ 79,334	\$ 54,229
Total Noncurrent Liabilities	\$ 79,334	\$ 54,229
Total Liabilities	\$ 7,166,518	\$ 6,567,979
Net Assets:		
Unrestricted	\$ 884,826	\$ 461,842
Total Net Assets	\$ 884,826	\$ 461,842

The accompanying Notes to the Financial Statements are an integral part of this statement.

NORTH DAKOTA LOTTERY
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating Revenues:		
Ticket Sales	\$ 22,328,353	\$ 19,127,290
Other Operating Revenue	85,006	95,799
Total Operating Revenues	<u>\$ 22,413,359</u>	<u>\$ 19,223,089</u>
Operating Expenses:		
Prize Expense	\$ 11,044,222	\$ 9,085,551
Retailer Commissions	1,157,076	956,365
Contractual Services Expense	2,366,279	1,973,152
Marketing	366,475	209,627
Salaries and Benefits	486,529	360,931
Operating	201,446	232,903
Total Operating Expenses	<u>\$ 15,622,027</u>	<u>\$ 12,818,529</u>
Operating Income	<u>\$ 6,791,332</u>	<u>\$ 6,404,560</u>
Nonoperating Revenues:		
Interest Income	\$ 131,652	\$ 60,335
Total Nonoperating Revenues	<u>\$ 131,652</u>	<u>\$ 60,335</u>
Income Before Transfers	<u>\$ 6,922,984</u>	<u>\$ 6,464,895</u>
Transfers to Other Funds:		
Compulsive Gambling Fund	\$ 200,000	\$ 260,489
State General Fund	6,300,000	5,838,005
Total Transfers to Other Funds	<u>\$ 6,500,000</u>	<u>\$ 6,098,494</u>
Change in Net Assets	\$ 422,984	\$ 366,401
Total Net Assets – Beginning of Year	<u>461,842</u>	<u>95,441</u>
Total Net Assets – End of Year	<u>\$ 884,826</u>	<u>\$ 461,842</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

NORTH DAKOTA LOTTERY
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash Flows from Operating Activities:		
Ticket Sales	\$ 16,698,946	\$ 14,739,550
Other Revenues	76,422	77,133
Paid to Prize Winners	(5,077,878)	(573,801)
Paid to Vendors	(4,917,928)	(7,476,900)
Paid to Employees	(446,737)	(364,641)
Reserves on Deposit	(177,014)	(457,742)
Net Cash Provided by Operating Activities	<u>\$ 6,155,811</u>	<u>\$ 5,943,599</u>
Cash Flows from Noncapital Financing Activities:		
Paid to Compulsive Gambling Treatment Fund	\$ (200,000)	\$ (400,000)
Paid to State General Fund	(5,836,571)	(1,432,434)
Net Cash Used in Noncapital Financing Activities	<u>\$ (6,036,571)</u>	<u>\$ (1,832,434)</u>
Cash Flows from Investing Activities:		
Interest Income	\$ 64,730	\$ 31,261
Net Cash Provided by Investing Activities	<u>\$ 64,730</u>	<u>\$ 31,261</u>
Cash and Cash Equivalents at Beginning of Year	<u>\$ 6,355,745</u>	<u>\$ 2,213,319</u>
Cash and Cash Equivalents at End of Year	<u>\$ 6,539,715</u>	<u>\$ 6,355,745</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 6,791,332	\$ 6,404,560
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(623,508)	20,003
(Increase) Decrease in Due from Other State Funds	(372)	1,332
(Increase) Decrease in Prepaid Expenses	(2,446)	(1,120)
(Increase) Decrease in Reserves on Deposit	(177,014)	(457,742)
Increase (Decrease) in Accounts Payable	(77,858)	(89,994)
Increase (Decrease) in Accrued Payroll	19,046	3,844
Increase (Decrease) in Compensated Absences Payable	20,746	(6,986)
Increase (Decrease) in Prizes Payable	121,297	45,974
Increase (Decrease) in Due to Other State Funds	(4,683)	5,979
Increase (Decrease) in Other Current Liabilities	89,271	17,749
Total Adjustments	<u>\$ (635,521)</u>	<u>\$ (460,961)</u>
Net Cash Provided by Operating Activities	<u>\$ 6,155,811</u>	<u>\$ 5,943,599</u>
Noncash Transactions:		
Interest Revenue on Prize Reserves	\$ 62,676	\$ 23,867
Total Noncash Transactions	<u>\$ 62,676</u>	<u>\$ 23,867</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

NORTH DAKOTA LOTTERY

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies

Organization

On November 5, 2002, North Dakota citizens approved a constitutional amendment that enables the state to participate in multi-state lottery games. The 2003 Legislative Assembly passed House Bill No. 1243 that became law on April 4, 2003. This law, chapter 53-12.1 (Lottery) of the North Dakota Century Code, created the North Dakota Lottery as a division within the Office of Attorney General. The law restricts the Lottery to multi-state online games. In-state lotto games, instant ticket games, and pick 3 or 4 numbers games are prohibited.

The mission of the Lottery is to maximize net proceeds for the benefit of the state by promoting entertaining games, providing quality customer service to retailers and players, achieving the highest standards of integrity, security, and accountability, and maintaining public trust.

The Lottery is our state's newest government-sponsored business enterprise. The Lottery manages, regulates, and promotes this business. As a business, the Lottery must be profitable in the eyes of the legislature. To be profitable, the Lottery must prosper, have a positive public image, and players must be confident that games are fair and honest. The success of the Lottery will depend on how well the Lottery is managed, the variety of games that are available to players, and how effectively games are promoted.

The Lottery is a member of the Multi-State Lottery Association (MUSL). The Lottery has been authorized to conduct the games of Powerball, Hot Lotto, Wild Card 2, and 2by2. The Powerball game was launched on March 25, 2004. The Powerball matrix is 5 of 55 and 1 of 42. The Hot Lotto game was launched on June 24, 2004. The Hot Lotto matrix is 5 of 39 and 1 of 19. The Wild Card 2 game was launched on September 23, 2004. The Wild Card 2 matrix is 5 of 31 and 1 of 16. The 2by2 game was launched on February 2, 2006. The 2by2 matrix is 2 of 26 and 2 of 26. Drawings for Powerball, Hot Lotto, and Wild Card 2 are held each Wednesday and Saturday evening. Drawings for 2by2 are held each Monday, Tuesday, Wednesday, Thursday, Friday, and Saturday evening.

To play the Power Play option on a Powerball ticket, a player pays an additional one dollar per play for an opportunity to multiply the player's set prize (excluding the grand prize) by 2, 3, 4, or 5. Before each Powerball drawing, the Power Play prize multiplier number is selected for that draw.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Lottery should include all component units

over which the Lottery exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Lottery.

Based on the criteria of GASB Statement No. 14, no organization was determined to be part of the Lottery as a reporting entity. The Lottery is a division of the Office of Attorney General which is part of the primary government of the state of North Dakota.

Basis of Accounting and Measurement Focus

The Lottery's activity is accounted for as a proprietary type enterprise fund for the state of North Dakota. A proprietary fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

An enterprise fund is used to account for an activity that is financed and operated in a manner similar to a private business enterprise where the costs of providing goods or services to the public on a continuing basis are financed through the sale of those goods or services. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. An enterprise fund is accounted for by using the economic resources measurement focus in which all assets and liabilities associated with the operation of the funds are included on the statement of net assets. Net assets are segregated into investments in capital assets and restricted and unrestricted components. The statement of revenues, expenses, and changes in net assets present increases, like revenues, and decreases, like expenses, in total net assets. The statement of cash flows presents the cash flows for operating, investing, and non-capital financing activities.

The lottery law prescribes that general fund monies of the state may not be used or obligated to pay expenses or prizes of the Lottery. The Lottery must be self-sustaining.

Accounting Standards

The Lottery follows the pronouncements of the GASB, which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Lottery follows all applicable GASB Pronouncements and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

The preparation of financial statements in conformity with generally accepted accounting principles requires the director to make estimates and presumptions that affect reported amounts of assets, liabilities, income, and expenses. Actual results could differ from those estimates.

Operating and Nonoperating Revenues

An enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal

ongoing operation. The principal operating revenue of the Lottery is sales of tickets. The principal operating expenses of the Lottery are prizes, retailer commissions, contractual services, marketing, MUSL game group dues, and salaries and fringe benefits. All revenue and expenses not meeting the criteria are reported as nonoperating income and expenses.

Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits with the Bank of North Dakota and the State Treasurer. The Lottery does not invest in marketable securities.

Retailer Security Deposits

If retailers have an unsatisfactory credit rating, the Lottery requires those retailers to provide the Lottery a security deposit to protect the Lottery from bad debts. Security may be in the form of a performance bond, deposit in cash, an irrevocable letter of credit, or a certificate of deposit. Security deposits in the form of checks or certificates of deposit are classified as assets. Security deposits in the form of letters of credit or performance bonds are classified as collateral.

Accounts Receivable

Accounts receivable primarily represents prizes due from MUSL and lottery funds due from retailers for ticket sales, less commissions and prizes on winning tickets paid by retailers. Lottery funds are collected weekly through electronic funds transfer by the Lottery from retailers' bank accounts. The Lottery has not incurred and does not project any bad debts.

Reserves on Deposit

The Lottery has \$743,618 on deposit with the MUSL related to the Prize Reserve Pools and Unreserved Account. See Note 5.

Prepaid Expenses

Prepaid expenses of \$7,060 are retailer commissions on future sales.

Furniture, Fixtures, and Equipment

The Lottery has no capitalized furniture, fixtures, or equipment. A fixed asset is capitalized if it has a useful economic life of more than one year, is tangible, and has a unit cost of \$5,000 or more. Depreciation would be computed using the straight-line method over the asset's estimated useful economic life.

Prizes

Prize expense is recorded based on actual drawing results.

Prizes payable represents the difference between the amount of prize expense recognized and actual prizes paid.

Players may redeem winning tickets for up to 180 days after the draw for the game. As of June 30, 2006, unclaimed prizes were \$323,196. Prizes that expired in fiscal years ended June 30, 2006, June 30, 2005, and June 30, 2004 were \$352,329, \$328,225, and \$0, respectively.

Deferred Revenue

A liability has been recorded for lottery tickets sold on or before June 30, 2006 on multi-draw tickets and for subscriptions sold on or before June 30, 2006 that contain plays for future draws that will occur after June 30, 2006. The amount related to future ticket sales on multi-draw tickets of \$140,394 and future sales on subscriptions of \$38,998 are classified as deferred revenue. Sales of uncashed gift certificates in the amount of \$3,516 are also classified as deferred revenue.

Interfund Balances and Transfers

At June 30, 2006, the Lottery had nominal accounts payables and receivables involving normal business expenses with several state agencies and had net proceeds due to be transferred to one state fund.

By law, the net proceeds of the Lottery, less the amount allocated to the compulsive gambling prevention and treatment fund, Lottery's share of a game's prize reserve pool, and holdback of any reserve funds the director may need for continuing operations, must be transferred to the State Treasurer on at least an annual basis for deposit in the state general fund. By law, fifty thousand dollars must be transferred to the State Treasurer each quarter for deposit in the compulsive gambling prevention and treatment fund. The reserve funds held by the director are funds that are required to be transferred to the MUSL for prize reserve pools. The balance of the net proceeds is transferred to the state general fund.

Retailer Commissions

Lottery retailers receive a five percent commission on each ticket sold or otherwise provided to players, and for subscriptions that retailers initiated. Effective January 1, 2006, the Lottery provides retailers a bonus commission, as a sales incentive, for selling jackpot and certain high tier prize winning tickets. The Lottery does not provide retailers a commission for redeeming winning tickets. Total retailer commissions were \$1,157,076, including bonus commissions of \$41,250.

Marketing and Advertising

Costs incurred for developing creative, including point-of-sale items, research, and media advertising are expensed when incurred which generally is when point-of-sale items are first distributed to retailers or advertising first takes place.

Accumulated Unpaid Vacation, Sick Pay, and Compensatory Pay

Annual leave and sick leave are a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Annual leave is earned based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to

be fixed by rules and regulations adopted by the employing unit. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the Office of Attorney General. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is earned at the rate of one working day per month of employment. There are no limitations on the amount of sick leave that an employee can accumulate. Employees who have ten continuous years of service are paid one-tenth of their accumulated sick leave upon termination or retirement under chapter 54-52 of the North Dakota Century Code. A liability is recognized for that portion of accumulated sick leave benefits that is estimated will be taken as required by the GASB Statement No. 16, *Accounting for Compensated Absences*.

Compensatory leave is earned by employees who work overtime each week in accordance with the Office of Attorney General's policy. Generally, upon termination or retirement, employees are not eligible to receive compensation for their compensatory leave balances.

Note 2. Compensated Absences

A summary of compensated absences follows:

Beginning balance, July 1	\$65,194
Addition	20,746
Reduction	<u>0</u>
Ending balance, June 30	<u>\$85,940</u>
Amount payable within one year	<u>\$ 6,606</u>

Note 3. Due to / Due from Other State Funds

At June 30, 2006, accounts payable due to several state agencies and transfers of net proceeds due to the state general fund are:

Due to the Department of Transportation	\$ 1,039
Due to the Information Technology Department	1,283
Due to the Office of Management & Budget	681
Due to the Office of Attorney General	105
Due to the State General Fund	<u>6,300,000</u>
Total	<u>\$6,303,108</u>

At June 30, 2006 the amount due from the Office of Attorney General was \$372.

Note 4. Employee Pension Plan

The Office of Attorney General participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the state of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Office of Attorney General. The plan provides retirement, disability, and death benefits. If an active employee passes away

with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse is entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse passes away before the employee's accumulated pension benefits are paid, the balance is payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-65, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Office of Attorney General has implemented a salary reduction agreement and is currently contributing the employee's share. The Office of Attorney General is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Office of Attorney General required an actual contribution to NDPERS for the fiscal years ended June 30, 2006, June 30, 2005, and June 30, 2004 of \$31,169, \$24,235, and \$14,738, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. The report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

Note 5. Multi-State Lottery Association

The Lottery is a member of the MUSL which administers games on behalf of member lotteries. MUSL administers the Powerball, Hot Lotto, Wild Card 2, and 2by2 games for the Lottery. Each member lottery sells game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equal to the member lottery's share of the grand prize liability. If this results in a negative amount, the MUSL transfers funds to the Lottery. Lesser prizes are paid directly to the winners by each member lottery. The prize pools for Powerball, Hot Lotto, and 2by2 are 50% of each drawing period's sales, after the prize reserve accounts are funded to the amounts set by the game groups. The prize pool for Wild Card 2 is 55%. Up to 2 % of sales for Powerball and Hot Lotto are

deducted from the prize pool and placed in prize reserve pools. For Hot Lotto, up to 1 % of sales is deducted from the prize pool and placed in a prize reserve pool when the grand prize exceeds \$2 million. An additional 2 % of sales are placed in the prize reserve fund after the annuitized grand prize exceeds \$5 million. When the prize reserve funds exceed the designated caps, the excess becomes part of the grand prize pool.

The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities and the money in this reserve fund is used at the discretion of the MUSL board of directors. The prize reserve fund monies are refundable to MUSL member lotteries if MUSL disbands or if a member lottery leaves MUSL. A member lottery leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. Any amount remaining in the prize pools at the end of the games is carried forward to a replacement game or expended in a manner as directed by the game group. The MUSL prize reserve pool account balance and the Lottery's share of that balance are as follows:

	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>6/30/2004</u>
MUSL prize reserve pool account balance	\$103,189,693	\$100,162,066	\$94,050,041
Lottery's share of the MUSL's account balance (on deposit)	\$ 713,015	\$ 536,001	\$ 78,259
Lottery's present amount due the MUSL	\$ 1,633	\$ 4,841	\$ 15,748
Lottery's future amount due the MUSL	\$ 60,345	\$ 471,631	\$ 677,244

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into this account and game group dues and other MUSL related expenses may be paid from this fund.

	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>6/30/2004</u>
MUSL Unreserved Account	\$16,731,645	\$11,961,734	\$9,737,349
Lottery's share of the MUSL's account balance	\$ 30,603	\$ (58,080)	\$ (18,028)

A winner of a Powerball or Hot Lotto grand prize may select that the prize be paid at the cash value of the prize or as an annuity. A Powerball grand prize is paid out in 30 installments and a Hot Lotto grand prize in 25 installments. Powerball annuitized prizes are paid annually in thirty graduated payments (increasing each year) by a rate determined by the Powerball game group. If a grand prize winner selects annual installments, the MUSL buys United States zero coupon bonds in the name of the member lottery that becomes the beneficiary. Winner trusts hold securities used to fund the MUSL's payment of cash to the member lotteries so the lotteries can, as obligated, pay winning players when annuitized payments are due. The source of this money is a game group's grand prize pool. The assets and related liabilities are reflected in the MUSL's financial statements and, therefore, are not reflected in the Lottery's financial statements. MUSL is responsible for transferring the cash or the annuity installment amounts to the member lottery before the payment to the grand prize winner. The Lottery currently is not paying any prize winner any annuity prize payments. The Wild

Card 2 and 2by2 grand prizes are paid in cash. The Powerball, Hot Lotto, and Wild Card 2 grand prizes are divided equally among multiple winning tickets.

As a member of the MUSL board and Powerball, Hot Lotto, Wild Card 2, and 2by2 game groups, the Lottery is responsible for its pro-rated share of the MUSL board dues, game group dues, and equipment costs as follows:

MUSL Board dues	\$52,439
MUSL Powerball game group dues	\$ 4,659
MUSL Hot Lotto game group dues	\$ 8,099
MUSL Wild Card 2 game group dues	\$18,082
MUSL 2by2 game group dues	\$ 4,271

Note 6. Commitments and Contingencies

The Lottery entered into contracts with:

1. Scientific Games International, Inc. of Alpharetta, GA on February 3, 2004. The vendor provides an online lottery gaming system and related services through March 24, 2012, with a possible extension through March 24, 2014. Payments for the fiscal years ended June 30, 2006, 2005, and 2004 totaled \$2,366,279, \$1,973,152, and \$606,060, respectively. The Lottery's future obligation is based on 10.63% of ticket sales, there is no minimum fee or retainer fee;
2. H2M of Fargo, ND on February 2, 2004. The vendor provides marketing and related services through June 30, 2007. Payments for the fiscal years ended June 30, 2006, 2005, and 2004 totaled \$331,564, \$175,188, and \$237,418, respectively. The Lottery's future obligation is for actual services requested, there is no minimum fee or retainer fee; and
3. A & U Security, LLC, of Helena, MT on March 8, 2004. The vendor provided standby services and, if necessary, security of the Scientific Games International, Inc.'s computer data center on days of the drawings. Payments for the fiscal years ended June 30, 2006, 2005, and 2004 were \$105, \$420, and \$420. The contract was terminated on March 31, 2006 since the Lottery's primary and secondary online lottery gaming systems were moved to Scientific Games International, Inc.'s computer data center in Oklahoma City, OK; and
4. Safety & Security Services, Inc. of Oklahoma City, OK on March 1, 2006. The vendor provides standby services and, if necessary, security of the Scientific Games International, Inc.'s computer data center on days of the drawings through February 28, 2009. The payment for the fiscal year ended June 30, 2006 was \$80. There is no minimum future compensation per year since there is no compensation for standby services. Future compensation is based only on actual services performed at the data center.

The Lottery has a contingent gain estimated at \$374,022 from prizes that may be forfeited due to winners not claiming them within the required time frame. This contingent gain has not been accrued in these financial statements but will be recognized when realized.

Note 7. Line of Credit

In accordance with subsection 2 of section 53-12.1-02 of the North Dakota Century Code, the Lottery has secured a short-term line of credit with the Bank of North Dakota. The law provides that the line of credit be limited to the amount of each cash prize of \$100,000 or more that relates to prize funds known to be due and forthcoming to the Lottery from other government-authorized lotteries through the MUSL. The line of credit may not exceed \$1 million in the aggregate. To date, no credit advances have been requested.

Note 8. Risk Management

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery, as a division of the Office of Attorney General, participates in the same funds/pools established by the state for risk management issues.

The 1995 Legislative Assembly established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1 million per occurrence.

The Office of Attorney General also participates in the North Dakota Fire and Tornado Fund. The office pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reimbursed by a third party insurance carrier for losses in excess of \$1 million per occurrence during a 12-month period.

The Office of Attorney General also historically participated in the State Bonding Fund in which the office was automatically enrolled on an annual basis and received blanket employee fidelity bond coverage in the amount of \$2.5 million. The State Bonding Fund did not charge any premium for this coverage. However, the 2005 Legislative Assembly changed the law effective January 1, 2006 to require state agencies to apply biennially for and specify the amount of coverage needed under the State Bonding Fund. However, due to miscommunication between the State Insurance Department and Office of Attorney General, the Office of Attorney General inadvertently did not apply for and was not covered under the State Bonding Fund during the period January 1 – June 30, 2006.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable John Hoeven, Governor
Members of the Legislative Assembly

Chuck Keller, Director
North Dakota Lottery

We have audited the financial statements of the business-type activities of the North Dakota Lottery, as of and for the year ended June 30, 2006, which collectively comprise the North Dakota Lottery's basic financial statements and have issued our report thereon dated November 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* as described in the accompanying schedule of findings, recommendations, and agency response.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Lottery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. However, we noted other matters involving the internal control over

financial reporting that we have reported to management of the North Dakota Lottery, in a separate letter dated November 6, 2006.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, North Dakota Lottery Advisory Commission, and management of the North Dakota Lottery and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson
State Auditor

November 6, 2006

NORTH DAKOTA LOTTERY

SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

For The Year Ended June 30, 2006

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

RESPONSES TO LAFRC AUDIT QUESTIONS

1. What type of opinion was issued on the financial statements?

Unqualified Opinion.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our finding addressing "inadequate blanket bond coverage" (see page 25) the North Dakota Lottery was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

There were no recommendations included in the prior audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 26 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant or unusual transactions.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.

The North Dakota Lottery's financial statements do not include any significant accounting estimates.

3. Identify any significant audit adjustments.

Significant audit adjustments were not necessary.

4. Identify any disagreements with management, whether or no resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.

None.

5. Identify any serious difficulties encountered in performing the audit.

None.

6. Identify any major issues discussed with management prior to retention.

This is not applicable for audits conducted by the Office of the State Auditor.

7. Identify any management consultations with other accountants about auditing and accounting matters.

None.

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

ConnectND Finance, Human Resource Management System (HRMS), Games Management System (GMS), and Internal Control System (ICS) are high risk systems critical to the ND Lottery.

FINDINGS, RECOMMENDATIONS, AND AGENCY'S RESPONSE
For the Fiscal Year Ended June 30, 2006

Inadequate Blanket Bond Coverage

The North Dakota Lottery is a division of the Office of Attorney General and because of that the North Dakota Lottery is covered by the Office of Attorney General's blanket bond coverage. The Office of Attorney General did not have blanket bond coverage from January 1, 2006 through September 21, 2006, and therefore neither did the North Dakota Lottery.

Senate Bill 2043, Section 14, of the 2005 Session Laws now requires all agencies and political subdivisions to apply for blanket bond coverage once per biennium or if a change in coverage is requested. Prior to the new law agencies blanket bond coverage simply rolled forward if no changes were requested by the agency or political subdivision. As the Office of Attorney General was not aware of this new law, no application was submitted to the Insurance Department and as a result their blanket bond coverage lapsed January 1st, 2006.

After the State Auditor's Office discovered the lack of coverage and informed the Office of Attorney General, they evaluated their risks and requested \$11.4 million of blanket bond coverage from the Insurance Department. However, due to the dwindling fund balance in the State Bonding Fund, the Insurance Department limited the coverage granted to the Office of Attorney General to \$2 million. Prior to January 1, 2006, the Office of Attorney General was covered by a \$2.5 million blanket bond.

NDCC 26.1-21-08 charges the State Auditor's Office with the responsibility of evaluating blanket bond coverage when conducting an audit of a state agency or political subdivision and to include recommendations for changes in the amount of that coverage in our audit report.

Based on our review of several risk factors associated with the Office of Attorney General and North Dakota Lottery we concluded that the \$2 million blanket bond coverage granted by the Insurance Department is inadequate.

Recommendation:

We recommend the Office of Attorney General and North Dakota Lottery obtain an adequate level of blanket bond coverage.

Agency Response:

After performing a risk assessment, we believe the present blanket bonding coverage of two million dollars more than adequately covers any potential loss. The North Dakota Lottery has strong internal controls to protect its assets and prevent or detect irregularities. This is an issue for the Legislature to decide.

Management Letter (Informal Recommendations)

November 6, 2006

Chuck Keller, Director
North Dakota Lottery
State Capitol
600 E. Boulevard
Bismarck, North Dakota 58505

Dear Mr. Keller,

We have audited the financial statements of the North Dakota Lottery for the year ended June 30, 2006, and have issued a report thereon. As part of our examination, we gained an understanding of the North Dakota Lottery's internal control structure to the extent we considered necessary to report on the internal control structure. We have issued our report on the internal control structure November 6, 2006. We also performed tests of compliance as described in our report on compliance with laws and regulations dated November 6, 2006.

It should be noted that our audit procedures are designed primarily to enable us to report on the internal control structure and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above we noted certain conditions that we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will then reconsider their status as non-reportable conditions. These conditions were considered in preparing the reports referenced above and in no way alter the opinion expressed in those reports.

The following sections of the letter present our informal recommendations.

CASH

We recommend the Office of Attorney General properly approve all correcting entries input directly into the general ledger on PeopleSoft.

Agency Response:

This recommendation has been implemented.

We recommend the North Dakota Lottery assign someone independent of handling cash to perform a reconciliation between the Games Management System (GMS) (the entire period since the last deposit) and deposit information from PeopleSoft.

Agency Response:

A new procedure has been implemented in which the Lottery accountant/budget specialist reconciles deposit information between the Games Management System and PeopleSoft accounting reports on a weekly basis.

ACCOUNTS PAYABLE / EXPENDITURES

We recommend the Office of Attorney General assign accounts payable approval roles in PeopleSoft to the appropriate Lottery personnel, through the workflow process in PeopleSoft.

Agency Response:

The Lottery Director is now approving all expenditures of one thousand dollars or more before the expenditure is processed for payment. With this change, the Lottery Director believes there is no need to have an assigned PeopleSoft accounts payable approval role.

We recommend the North Dakota Lottery ensure that all purchase card statements are signed by the cardholder and approved by an appropriate supervisor.

Agency Response:

The Lottery purchase card billing statements are now signed and dated by the Lottery's purchase card holder and approved by the Director.

GENERAL

We recommend the North Dakota Lottery prepare adjustments for future sales and commissions on subscriptions based on the proper GMS report.

Agency Response:

A new procedure has been implemented to account for future sales and commissions on subscriptions base on Games Management System reports and historical data at the end of each fiscal year.

I would encourage you to call our office if you have any questions about the implementation of recommendations included in your audit report or this letter. You may either call me or one of our audit managers at 328-2241.

Sincerely,

Michael W. Schmitcke, CPA
Auditor in-charge