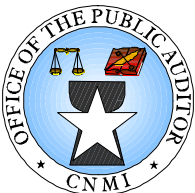


# *Letter Audit Report*

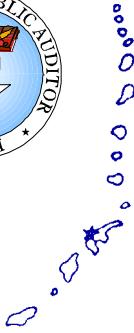
## Department of Finance Audit of Government Revenues From the CNMI Lottery Operations

For the Second Quarter of Fiscal Year 1996  
Ending March 31, 1996

(Letter Report No. LT-97-03)



*Office of the Public Auditor*  
Commonwealth of the Northern Mariana Islands



# Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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February 24, 1997

Mr. Antonio Cabrera  
Secretary, Department of Finance  
Capitol Hill  
Saipan, MP 96950

Dear Mr. Cabrera:

**Subject: Final Letter Audit Report on Government Revenues from the CNMI Lottery Operations for the Second Quarter of Fiscal Year 1996 Ending March 31, 1996 (LT-97-03)**

In compliance with 1 CMC §9320 of the Commonwealth Code, we submit our audit report on government revenues from the Commonwealth of the Northern Mariana Islands' (CNMI) Lottery operations for the second quarter of fiscal year 1996 ending March 31, 1996.

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

Based on our audit, government revenues of \$83,317 earned from the CNMI Lottery operations for the second quarter of fiscal year 1996 ending March 31, 1996 were properly computed in accordance with the terms of agreements and memorandum of understanding.

For your information, the schedule of government revenues from the CNMI Lottery operations for the second quarter of fiscal year 1996 ending March 31, 1996 (with cumulative totals for the first two quarters of fiscal year 1996, and comparative totals for the first two quarters of fiscal year 1995) is presented on page 3 of the report. The schedule shows the actual amount of government revenues after reflecting necessary adjustments.

Sincerely,

ORIGINAL SIGNED

Leo L. LaMotte

Public Auditor, CNMI

cc: Governor

Lt. Governor

Tenth CNMI Legislature (27 copies)

Secretary of Commerce

Special Assistant for Management and Budget

Elliott A. Sattler, Assistant Attorney General

and Gaming Counsel

Robert Florian, Department of Finance Lottery Administrator

Public Information Officer

Craig J. Pattillo, Pacific Instant Lottery, General Manager

John Hycenko, The Mail Service, Managing Director

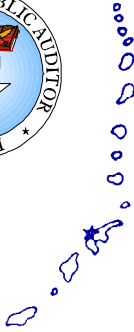
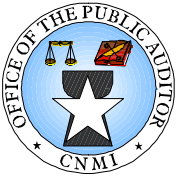
Press

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

**Audit of Government Revenues from the  
CNMI Lottery Operations  
For the Second Quarter of Fiscal Year 1996 Ending March 31, 1996**

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## **Report on Audit of Government Revenues from the CNMI Lottery Operations For the Second Quarter of Fiscal Year 1996 Ended March 31, 1996**

Department of Finance  
Commonwealth of the Northern Mariana Islands:

In compliance with 1 CMC, §9320 of the Commonwealth Code, we audited government revenues from the Commonwealth of the Northern Mariana Islands' (CNMI) Lottery operations for the second quarter of fiscal year 1996 ending March 31, 1996.

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

Under the terms of agreements and memorandum of understanding, the CNMI shall receive and be compensated directly and indirectly by the payment of commissions, taxes, duties and fees in an amount equivalent to thirty-five percent (35%) of the subscription price paid for each on-line lottery ticket sold in the CNMI, and in an amount equivalent to twenty-six-and-one-half percent (26.5%) of the subscription price of each instant game ticket shipped or delivered by TMS for sale in the CNMI.

Our review of commission revenue was limited to a determination of whether subscription prices of on-line lottery tickets and instant game tickets were properly included in the computation base for commission revenue. This included performing procedures for validating the total amount of subscription and commission revenues by tracing them to books of original entry and supporting records. Our audit was also limited to a review of the mathematical accuracy in the computation of subscription and commission revenues, and examination of remittance documents. We completed our field work on September 4, 1996.

We conducted our audit, as applicable, in accordance with the "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 believe that our audit provides a reasonable basis for our conclusion.

Based on our audit, we concluded that government revenues of \$83,317 earned from the CNMI Lottery operations for the second quarter of fiscal year 1996 ending March 31, 1996 were properly computed in accordance with the terms of agreements and memorandum of understanding.

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

**ORIGINAL SIGNED**

Leo L. LaMotte

Public Auditor, CNMI

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

**Schedule of Government Revenues from the CNMI Lottery Operations  
For the Second Quarter of Fiscal Year 1996 Ending March 31, 1996  
(With cumulative totals for the first two quarters of fiscal year 1996, and  
comparative totals for the first two quarters of fiscal year 1995)**

|  | Numbers of<br>Games/Tickets | Subscription<br>Price | Compensation<br>Rate | Government Revenues    |                   |                   |
|--|-----------------------------|-----------------------|----------------------|------------------------|-------------------|-------------------|
|  |                             |                       |                      | Second Quarter<br>1996 | Totals<br>1996    | Totals<br>1995    |
| <b>On-line Games (Tatslotto):</b>                                      |                             |                       |                      |                        |                   |                   |
| Saturday   | 216,206                     | \$ 65,615             | 0.35                 | \$ 22,965              | \$ 45,772         | \$ 50,662         |
| Midweek  | 40,242                      | 15,241                | 0.35                 | 5,335                  | 9,653             | 25,289            |
| Extra  | -                           | -                     | 0.35                 | -                      | -                 | 364               |
| OZ Lotto   | 9,140                       | 6,921                 | 0.35                 | 2,422                  | 5,109             | 6,077             |
|  |                             | <u>87,777</u>         |                      | <u>30,722</u>          | <u>60,534</u>     | <u>82,392</u>     |
| <b>Instant Game Tickets:</b>   |                             |                       |                      |                        |                   |                   |
| Ten Dollars (\$10)   | -                           | -                     | 0.265                | -                      | -                 | 5,364             |
| Five Dollars (\$5)   | 6,500                       | 27,778                | 0.265                | 7,361                  | 14,863            | 15,154            |
| Four Dollars (\$4)   | -                           | -                     | 0.265                | -                      | -                 | -                 |
| Two Dollars (\$2)  | 43,000                      | 77,020                | 0.265                | 20,410                 | 57,563            | 35,594            |
| One Dollar (\$1)   | 110,000                     | 93,674                | 0.265                | 24,824                 | 65,252            | 10,973            |
|  |                             | <u>198,472</u>        |                      | <u>52,595</u>          | <u>137,678</u>    | <u>67,085</u>     |
| <b>Government Revenues</b>   |                             |                       |                      | <u>\$ 83,317</u>       | <u>\$ 198,212</u> | <u>\$ 149,477</u> |
| <b>Interest/Other Income</b>   |                             |                       |                      | <u>5,721</u>           | <u>8,433</u>      | <u>2,154</u>      |
| <b>Total Revenues</b>  |                             |                       |                      | <u>\$ 89,038</u>       | <u>206,645</u>    | <u>\$ 151,631</u> |
| <b>Revenues Recorded on DOF Books</b>                                  |                             |                       |                      |                        | <u>192,486</u>    |                   |
| <b>Accrued Revenues Recorded After the End of the Quarter (Note 3)</b> |                             |                       |                      |                        | <u>\$ 14,159</u>  |                   |

See accompanying notes to the schedule of government revenues  
from the CNMI Lottery operations

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

**Notes to the Schedule of Government Revenues  
from the CNMI Lottery Operations  
For the Second Quarter of Fiscal Year 1996 Ended March 31, 1996**

**I. Background and Organization**

***The CNMI Lottery***

The Commonwealth Lottery Commission Act, enacted on June 3, 1983, authorized the operation of a public lottery in the Commonwealth (1 CMC §9301). Operation of the public lottery began when rules and regulations for the operation of the CNMI Lottery were adopted on October 14, 1993. The CNMI Lottery was previously administered by the Commonwealth Lottery Commission, which consisted of the Director of Finance, the Attorney General, and the Director of Commerce and Labor. On August 24, 1994, the Commonwealth Lottery Commission was abolished and its functions were transferred to the Department of Finance pursuant to Section 307 (a) of Executive Order 94-3 issued by the Governor of the CNMI. Under the Executive Order, the Secretary of Finance shall consult with the Secretary of Commerce and the Attorney General as necessary for administration of the defunct Commission's functions. Presently, an Assistant Attorney General serves as Gaming Counsel to monitor lottery operations under the supervision of the Secretary of Finance.

***The Lottery Operator***

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

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

On September 1, 1993, TMS Saipan, Ltd. was locally incorporated in the CNMI by Mr. John Hycenko, President of The Mail Service (TMS) Pty. Ltd., the sole accredited and



authorized representative for the overseas operations of Tattersall's games, to manage lottery operations and sale of instant lottery tickets for Tattersall and Wintech.

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

### ***The CNMI Lottery Games***

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

#### **On-Line Games**

An on-line game is one of various types of lottery game(s) which utilizes electronic equipment such as a computer system to administer play, and in which a player may select; (1) a combination of numbers to be played; (2) the type of game to be played; and (3) the amount of play for one or more specified drawing dates. The CNMI Lottery operator then conducts a random drawing whereby, pursuant to chance, the winning combination or combination of numbers is 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.

## **2. Summary of Significant Accounting Policies**

The accompanying schedule of government revenues has been prepared under the accrual basis of accounting. On this basis, revenues are recognized when earned, whether received or not by the end of the quarter.

## **3. Accounting Matters**

Accrued revenues of \$14,159 were recorded only after the end of the quarter. The Department of Finance (DOF) recognized government revenues based on weekly remittance advices submitted by TMS. Official receipts are prepared by DOF to document the receipt of revenues and to serve as basis for posting into the system. However, posting of the official receipts is sometimes delayed, resulting in differences in amounts between government revenues earned and revenues recorded on DOF books.

The accompanying schedule of government revenues shows the actual amount of government revenues earned for the second quarter of fiscal year 1996 ending March 31, 1996, after reflecting necessary adjustments.