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CERTIFIED PUBLIC ACCOUNTANTS

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Audit Committee and Management
State of New Jersey, Department of Treasury
Division of State Lottery
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This letter includes observations and recommendations with respect to matters that came to our attention in connection with our interim audit procedures of the [redacted] New Jersey Lottery Group, LLC ("[redacted] lottery growth management service ("service agreement") expenses for the months ended April 30, 2023, May 31, 2023, and June 30, 2023. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the [redacted] State of New Jersey, Department of Treasury, Division of State Lottery (the "Lottery") practices and procedures related to compliance with the service agreement.

Audit Objective
The interim audit objective was to determine if the expenses charged by [redacted] were in compliance with the service agreement between the Lottery and [redacted]

Scope
The scope of our interim audit procedures was limited to the expenses and allocations charged by [redacted] to the Lottery under the service agreement for the months of April through June 2023.

Methodology
To accomplish our objective, we:

- Performed inquiries with [redacted] and Lottery management and key staff to gain an understanding of the policies and procedures in place over the service agreement billing process and those related to finance, purchasing, payroll, payable and cash disbursements.
- Evaluated the monthly invoice report containing the budgeted, actual and billed expenses for [redacted] services for the months of April through June 2023.
- Examined supporting documentation, including invoices, allocation sheets and payroll registers, for a sample of expenses charged during April through June 2023.

Observations and Recommendations

Management Fee Expense
We viewed the monthly Excel spreadsheets that document employees' rates, titles and hours charged and allocated to the Lottery for Scientific Games ("Scientific") and International Gaming Technology ("IGT") corporate employees. The Scientific and IGT rates and hours of corporate staff listed in the support are estimated values and not actual pay rates or hours worked on Lottery-specific related activities. It was noted that the actual value of services provided determined by this estimation process exceeded the monthly billed amount, which recalculated to 1/12th of the approved annual management fee budget line, for each month of the quarter tested.

Manager Expense
For the monthly manager expense, we obtained Northstar's general ledger expense detail that supported expenses charged for the month. We sampled various expenses and requested payroll registers, invoices, or other supporting documentation for each transaction selected. Except for the items listed below, transactions selected appeared to be supported and allowable under the terms of the service agreement or properly classified as a non-reimbursable transaction. We were also able to recalculate the fringe benefit expenses for [redacted] personnel charged to manager expenses.

- Sales tax or tariff charges were included in the total charges for various manager expenses. Per the contract, the Lottery's tax exemption should be utilized for any Lottery related purchases. Invoices with sales tax included should have the sales tax portion charged to a non-reimbursable account.
- Support for May expendable computer supplies purchased through Amazon was not clear as to the Lottery's use to determine the allowability of the charge.
- Various vehicle lease or fleet charges included amounts billed for vehicle repairs that could be covered by NSNJ and/or Lottery insurance and not result in a chargeable cost to the Lottery. These amounts should be reviewed to determine regular maintenance charges compared to accident repairs.

Marketing and Advertising Expenses
For the monthly marketing and advertising expenses, we obtained Northstar's general ledger detail that supported the amounts charged for the month. We sampled various expenses and requested invoices and other supporting documentation. Except for the items listed below, transactions selected appeared to be supported and allowable under the terms of the service agreement.

- Certain expenses were noted in the general ledger under vendor names that were not in line with the related invoice support.
- Credits from vehicle turn-in charges did not appear to be applied to reduce the Q4 invoices.
- Support for short term lease and wireless voice expense line items was not available timely.
- Support for certain sponsorships was not sufficient to determine the allowability of the charge.

- Support for giveaways was not sufficient to identify the Lottery event or marketing benefit nor was an inventory for the items purchased, used and available to be reused at a subsequent event noted.

Other Subcontractor Expenses

For the monthly other subcontractor expenses, we obtained Northstar's general ledger expense detail for the months tested. The transactions selected appeared to be supported and allowable under the terms of the service agreement.

System Provider Vendor and Provider Printing Fees

For the monthly system provider vendor and provider printing fees, we obtained Northstar's general ledger detail that supported the amounts charged for the month. We noted expenses for this cost category are based on 1.05% of draw and instant games sales and 1.215% of net sales for games printed through [redacted] We were able to trace the sales totals to supporting documentation and able to recalculate the fees charged at 1.05% of these sales totals without exception. We were also able to trace the sales totals for the allowable games to supporting documentation and able to recalculate the fees charged at 1.215% of these sales totals without exception. System provider vendor and provider printing fee amounts tested appeared to be supported and allowable under the terms of the service agreement.

Pass-Through Expenses

For the monthly pass-through expenses, we obtained Northstar's general ledger detail that supported the amounts charged for the month. We sampled expenses charged in this category and requested invoices and other supporting documentation. The transactions selected appeared to be supported and allowable under the terms of the service agreement.

General Provisions

In the prior year's reporting, we recommended that Lottery and [redacted] management determine allowable cutoff periods for expenses to be included in the monthly invoices and create a formal written policy for documenting allowable exceptions, such as late invoices from [redacted] subcontractors. We also requested that [redacted] prepare a subcontractor tracking document that would be provided to Lottery for their review at least quarterly. Per our audit of the April through June 2023 invoice packets and inquiries performed with Lottery and [redacted] staff, it appears that these recommendations have not been fully implemented.

An expense accrual document has been maintained by NSNJ each month and provided to the Lottery for review but questions about timing and proper cutoff of expenses remained for the Q4 months of fiscal year 2023. We also noted invoices for current month payments and the accrued expenses were commingled in the support packets. We recommend Lottery request segregated support between what invoices were paid and individually charged versus those accrued each month.

We also noted expenses containing various tariff and shipping charges. Lottery should inquire of NSNJ management to determine if the services or goods provided could be acquired from vendors that would not require such tariffs or excessive shipping and handling charges. Lastly, we recommend the Lottery track the vehicle lease and repair expenses by NSNJ employee and year to date to evaluate the reasonableness of the expenses. We also recommend that the Lottery continue to review expenses for reasonableness including the reasonable pricing of readily available items. Finally, we recommend that [redacted] maintain and report to the Lottery, an inventory of promotional items on hand and left over from previous events.

This letter is intended solely for the information and use of the audit committee, management and others within the Lottery, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate serving the Lottery and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

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