

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
December 14, 2011
MINUTES**

Call to Order: Board Chair Marcus Rael called the meeting to order at 11:06 a.m. M. Rael asked for roll call. Present and constituting a quorum were Nino Trujillo, Herman Tabet, Marcus Rael, Reta Jones, Ken Hoeksema and Clifford Stroud (via telephone).

Introductions: The following employees were present from NMLA: Tom Romero, Adriana Binns, Sylvia Jaramillo, Evelyn McKnight, Pam Poteat, Dave Ramirez, Vince Torrez, Michael Boland, Margie Topper, Linda Hamlin, Gale Johnson, Wilma Atencio, Scott Eliason and Corrine Zajac-Clarkson with Moss Adams, Inc. Also present were Steve Schwickert, Randy Reeves and Matt Worley with Intralot.

Approve Proposed Agenda: M. Rael called for a motion to approve proposed agenda. R. Jones moved that the agenda be accepted as proposed. Second by H. Tabet. All in favor, 6-0. There was no further discussion.

Approve Minutes of August 31, 2011 Board of Directors Meeting: M. Rael entertained a motion to approve the minutes from the August 31, 2011 Board meeting. R. Jones requested that the last sentence of the second paragraph on Page "8" be stricken. R. Jones moved to approve the minutes, as amended. Second by N. Trujillo. All in favor, 6-0. There was no further discussion.

Executive Reports:

CEO:

Employee Recognition: T. Romero and the board recognized employee service anniversary and presented an award to Margie Topper for 15 years with the New Mexico Lottery Authority.

General Update: T. Romero reported that Lottery revenues for October brought total revenues raised for education since 1996 to \$500 million dollars. A great achievement for the lottery; took 15 years to reach this milestone. Some of the benefits went to capital improvement projects early on for schools in New Mexico and the rest towards the Legislative Lottery Scholarship Fund. The lottery is appreciative to the executive staff, staff, vendors, retailers, players, everyone and the work the Lottery Board has done to mark this milestone.

Player and retailer education about the January 15th changes to Powerball is underway. There will be a new prize point Powerball (\$1 to \$2) and higher jackpots. All activity for the upcoming changes is on schedule and moving accordingly.

The lottery will be issuing a request for proposal for banking services which will be going out shortly so that a new contract can be established before the existing contract expires on May 15, 2012. The lottery is currently with US Bank, which was formerly First Community. In addition, a request for bid for payroll services will also be going out soon.

T. Romero reported that sales year to date are at \$56.8 million, down 4% from last year and at 94% of the FY 12 budget forecast; Powerball and Mega Millions sales are up, but Hot Lotto and Roadrunner Cash sales are down, largely due to a lack of jackpot run ups.

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T. Romero reported that a board workshop will be scheduled for January to evaluate options in anticipation of the March 31, 2013 expiration of the lottery's lease for the property at 4511 Osuna Road NE in Albuquerque.

K. Hoeksema asked if the increase of a Powerball ticket from \$1 to \$2 would cause a sales loss. T. Romero said that lotteries were projected to lose as much as 35%, but those losses would likely be offset by the increased revenue from the higher ticket price. He also said many Powerball players in New Mexico could be expected to migrate to the lottery's other \$1 games of Mega Millions, Hot Lotto and Roadrunner Cash.

Ticket Advertising Policy: In reviewing the proposed Ticket Advertising Policy, T. Romero explained that there is space available on drawing game tickets that could be sold to advertisers as a revenue source for the scholarship program. T. Romero reported that in the past, this space has been used for Public Safety messages. T. Romero said that the lottery's advertising agency has made a preliminary calculation that based on previous yearly sales of approximately 25 million tickets and an advertising charge of 2 cents to 4 cents a ticket, the revenues could be as high as \$500,000. He further explained that the lottery's gaming system vendor has the capability to allow an advertiser to print messages on only those tickets sold in specific zip codes or geographic regions. Pending notification of the Legislative Finance Committee and possibly renegotiating the contract with the lottery's ad agency to provide support, T. Romero said he did not believe advertising on lottery tickets would appear until the end of Fiscal Year 2011. T. Romero is requesting Board Adoption of this policy. T. Romero reported that during the committee meetings, there was concern voiced that there is a negative to this proposal and that players may not like who the advertiser is, such as a national chain.

R. Jones reported that while the Audit and Finance Committee discussed a possible negative impact to lottery sales if a player doesn't like the company or product that has purchased ad space on tickets, the lottery should go through the due diligence to enable the capability given the new revenue potential.

H. Tabet expressed a concern that advertising could make lottery tickets appear cluttered.

K. Hoeksema thought the risk that players would stop playing lottery games because they disliked an advertiser was minimal, particularly when advertising is appearing more frequently in unexpected places such as public transit busses.

M. Rael asked T. Romero about the amendment to the ticket advertising policy; M. Rael asked T. Romero what that amendment would be. T. Romero reported that not at this time, while an amendment was discussed during the committee meetings, in how the lottery would run this type of a program. Initially it was discussed that an existing staff member would be used, but that it may be feasible to work with our advertising agency because they do have clients that do advertise. This would give them another venue to offer to them at no cost to the lottery. There would be a separate amendment that would give them a small percentage of what the lottery would bring in, but it would be something the lottery would need to discuss with the ad agency. Another option in how the lottery would run the program without having to add under existing staff.

M. Rael thought that the board should postpone approving the policy until the Board had time to review all information that would be involved in the changes and the feedback from the Legislative Finance Committee.

M. Rael called for a motion to table any board action. K. Hoeksema moved to table Ticket Advertising Policy. Second by H. Tabet. All in favor, 6-0.

Administrative Days Off: T. Romero asked the board to approve a day of administrative leave for employees in lieu of salary increases and to be taken in March or April 2012.

M. Rael called for a motion to approve request for one administrative day (March/April 2012) for NMLA employees. H. Tabet moved that the request for one administrative day be approved. Second by N. Trujillo. All in favor, 6-0. There was no further discussion.

FY 2011 Financial Audit: S. Jaramillo introduced the lottery's Independent financial auditors, Scott Eliason and Corrine Clarkson, from the accounting firm of Moss Adams to present the results of the FY 2011 Financial Audit. Moss Adams completed this year's financial audit and audits in the past few years. Scott and Corrine both bring many years of audit experience and knowledge and over the years have expanded their lottery knowledge to bring innovative audit methods to test our internal controls, processes, and transactions. Following their presentation, I ask for your acceptance of the FY 2011 Financial Audit as presented. At this time I will turn the meeting over to them.

S. Eliason reported that Moss Adams met with the Finance/Audit Committee back in October 2011 and reviewed the results of the audit with the committee members. The audit report was sent to the State Auditor on October 12, 2011 and had no comments on the report. S. Eliason reported that management prepares the financial report and there was no financial adjustment. S. Eliason did report that there were three audit findings that meets the criteria and of importance to merit attention. C. Clarkson reported from the summary schedule of prior year audit findings. There were three audit findings noted in FY 2010.

M. Rael asked why was the FY 2010 findings not cleared. C. Clarkson reported that the lottery is still working on those findings. The lottery has made progress on the two items from 2010, but not significantly to get them cleared.

N. Trujillo asked if the lottery had recovered money owed by stores in the Chevron Red-Mart chain, which ceased doing business in New Mexico in 2010. S. Jaramillo that lottery was forced to write off losses of \$102,000.

M. Rael asked for a motion to accept the FY 2011 Financial Audit. H. Tabet moved to accept the FY 2011 Financial Audit. Second by K. Hoeksema. All in favor, 6-0.

Financial Statements: S. Jaramillo presented financials for October 2011. The New Mexico Lottery returned \$3.2 million in net income, which is a 30.05% return, meeting the 30% return for the month. The overall return for the fiscal year is 30.36%, or \$12,649,268. This return has been met by holding back expenses and not through increasing sales. Last year at this time we transferred \$13,067,757, which was a 30.26% return. Last year's dollars were nearly \$418,500 more, but a slightly smaller percentage.

Through October 31 2011, net instant sales (after deducting prize, spoiled and stolen tickets) were approximately \$22.9 million and accounted for approximately 55% of net sales. These net sales were \$1.8 million less than the FY 12 YTD budget, and were nearly \$1.5 million dollars less than the net instant ticket sales for the same period in fiscal year 2011—a drop of 6.1%.

Net drawing game sales were approximately \$18.8 million. Net drawing game sales were about \$793,000 less than the FY 12 YTD budget and were \$43,000 less than FY 11 net drawing game sales. Drawing sales accounted for 45% of net sales. Powerball sales were up compared to budget and to the previous year, while all the other net drawing game sales, except for Mega Millions were down compared to both budget and last year. Mega Millions was about half a million behind the YTD budget, but slightly ahead of last year's net sales.

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Total Operating Revenues were close to \$2.6 million behind the YTD budget and \$1.5 million behind last year's operating revenues for the first four months of the year.

Total Game Expenses were at 93.78% of the YTD Budget percentage. At the end of October, sales were 5.85% lower than its YTD budget, while Total Game Expenses were 6.22% behind the YTD budget. This shows some cost savings in Total Game Expenses. Actual Game expenses are 3.89% less than in the previous fiscal year. In addition, last year game expenses were at 65.83% of Gross Revenues, while this year total Game Expenses are at 65.59% of Gross Revenues. This lower percentage is primarily due to ticket vendor fees being lower this fiscal year. We have started seeing more of the cost savings with the GTECH Printing contract—approximately a \$50,000 savings this year for equivalent sales.

Operating expenses were at 4.05% of total Gross Revenues at the end of October. With the total operating expenses at 87.78% of its YTD budget. Operating expenses are within \$1,000 of the Operating expenses in October 2010, but are nearly \$235,000 less than the YTD Budget—12.22% less than the YTD budget. All line items, except for Leases and Insurance and Utilities and Maintenance are lower than the YTD budget—both of these line items are over the YTD budget because the expenses include the costs for the building next door, which are not included in the budget.

Net Income is approximately \$540,000 less than the YTD Budget, and more than \$418,000 less this year than last October or 3.20% less this year

AUDIT:

Internal Audit Reports: M. Boland presented two Audit Reports for acceptance by the board. A full detailed report was made during the Finance/Audit committee meeting.

M. Boland presented the 12-002 Credit Card Audit Report explaining that the audit was requested by CEO, T. Romero. M. Boland said 36 of the lottery's 56 employees have credit cards and he tested half of that population or 18 employees. M. Boland reported no observations related to the attributes tested (documentation, review/approval and business-related transactions). M. Boland said he found two observations unrelated to the attributes tested. In the first observation, two employees left lottery employment and their credit cards were not deactivated. No charges were made following their departures. Going forward, credit cards will be deactivated as part of the employment exit process. In the second observation, 40% of expense reports were submitted to accounts payable after the deadline described in the lottery's credit card policy. Going forward, employees will receive monthly online reminders to submit their expense reports on time.

H. Tabet asked why some employees had credit limits of \$1,500 and \$4,000. T. Romero explained that higher credit limits reflected job functions, such as field sales representatives who have overnight travel and vehicle maintenance expenses.

N. Trujillo asked for the total of lottery credit card purchases for the year. M. Boland said they came to \$171,000.

R. Jones asked if the CEO was among the 18 employees tested. M. Boland said the CEO was included in the test group.

M. Rael called for a motion to accept the Credit Card Audit Report. R. Jones moved to accept the Credit Card Audit Report. K. Hoeksema second. All in favor, 6-0.

M. Boland submitted the 2011 Independent Service auditor's Report for Online Game Services and said there were no reportable findings. No board action was required.

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M. Boland submitted the 2012 Audit Plan. He said the Audit and Finance Committee had reviewed it and offered suggestions.

M. Rael called for a motion to accept the 2012 Audit Plan. C. Stroud moved to accept the 2012 Audit Plan. R. Jones second. All in favor, 6-0.

BOARD CHAIR:

Announcements: M. Rael announced that the upcoming Workshop and Board of Directors meeting would be scheduled for January 19, 2012 at 9 a.m.

PUBLIC COMMENT: There was no public comment.

ADJOURNMENT: M. Rael entertained a motion to adjourn the meeting. R. Jones moved to adjourn the meeting. N. Trujillo second. All in favor, 6-0. The meeting was adjourned at 12:17 pm.