

Finance Audit Committee Meeting
New Mexico Lottery Authority
March 16, 2017
MINUTES

Call to Order: M. Koson called the meeting to order at 12:40 p.m., and asked for a roll call. Present and constituting a quorum were; Mark Koson, Dan Salzwedel and John Kubiak.

Present from NMLA were; David Barden, Sylvia Jaramillo, Michael Boland and Wilma Atencio.

D. Salzwedel stepped out for a few minutes for phone call.

Approve Proposed Agenda: M. Koson called for a motion to approve the proposed agenda. J. Kubiak moved to accept the proposed agenda as presented; second by M. Koson. Carried; 2-0.

Public Comment: None.

FINANCE AUDIT Committee Report – M, Koson, Committee Chair:

LOTOS Access Engagement: M. Boland reported that he has two reports to present today to the finance audit committee; the first one is the LOTOS Access Engagement report (LOT = Lottery; OS = Operating System - LOTOS). LOTOS is the online vendors processing system which consists of the online gaming system and the Back-Office System (BOS). The consulting engagement report was performed to evaluate the present condition of LOTOS Access controls and configurations in conjunction with Security to offer solutions to improve the design and operational effectiveness of LOTOS access controls, role configurations and procedures, while maintaining the security and integrity of the LOTOS game processing system. Based on the Internal Audit's consulting engagement, best practices and standards have been met with the NMLA's high expectations for security and integrity. The lottery now has a better and more secure system and controls in place. Internal Audit requests acceptance of this report.

M. Koson called for a motion to accept the LOTOS Access Engagement report. J. Kubiak moved to accept the LOTOS Access Engagement report as presented; second by M. Koson. Carried; 2-0

D. Salzwedel rejoined meeting.

Disaster Recovery Testing Review: M. Boland presented the Disaster Recovery Testing Review to the finance audit committee for acceptance. A disaster recovery testing helps ensure that an organization can recover data, restore business critical applications and continue operations after an interruption of services. Intralot (NMLA's) online vendor is required to conduct recovery testing every six months. Intralot last tested their system June 2015. The current testing occurred on January 22-26, 2017 and are in compliance. The next testing for Intralot is June 2017. The lottery is required to conduct recovery testing annually. The lottery last tested their system in 2015; which resulted in a finding in the FY 2016 Financial Audit. The lottery could not test their system the year of the finding due to conversion of the Back-Office System with Intralot was occurring at the same time the FY 2016 Financial Audit took place. The lottery tested its disaster recovery on February 16, 2017 and was a success and the lottery should see this FY 2016 finding remedy itself and fall of the report for the upcoming FY 2017 Financial Audit.

The objective was to ensure that both the lottery and Intralot processes for the gaming system and the lottery's critical IT services and key business functions were tested efficiently and successfully and provide comfort to lottery management that operations will continue if a disruption were to occur.

J. Kubiak asked if the testing was conducted in a real-life situation/failover. M. Boland reported that a real-life situation is not practical; however, the lottery is prepared for real-life situations and has protocols and safeguards in place should this occur and is achievable.

M. Koson called for a motion to accept the Disaster Recovery Testing Review report as presented. D. Salzwedel moved to accept the Disaster Recovery Testing Review report as presented; second by J. Kubiak. Carried; 3-0.

Financial Statement: S. Jaramillo provided a brief overview of the financial statements for January 2017. The lottery has returned \$22 million to the Legislative Lottery Scholarship program, meeting our statutorily required 30% return each and every month. This net revenue is \$2.1 million less than the FY 17 YTD budget or 8.73% less than budget and nearly \$5.9 million less than for the first seven months of fiscal year 2016 – a 21% decrease to fiscal year 2016. With the transfer that was made at the end of January, we have now returned over \$722.9 million to the State of New Mexico for education.

Instant ticket sales for the were approximately \$41.9 million. Last year instant sales were nearly \$45.3 million. Instant ticket sales have decreased more than \$3.3 million from last year – a 7.4% drop and are \$4.7 million less than the FY 17 YTD Budget – 10.13% less than the YTD Budget. This is due in large part in a decrease in prize payout.

The average instant ticket prize payout expense was 60.98%, compared to 63.47% for the first seven months of FY 16 – a 2.49% drop in prize payout from last year.

Net drawing game sales were approximately \$31.6 million. Net drawing sales were nearly \$3.4 million less than the FY 17 YTD Budget, but were more than \$16.2 million less than FY 16. This is mainly due to Powerball sales. Powerball sales were nearly \$16.1 million less than last fiscal year. This is mainly due to having the \$1.5 billion Powerball jackpot run-up last January 2016. Roadrunner Cash sales were \$626,000 less than last year and Hot Lotto sales were \$270,000 less than last year.

Overall Game expenses are tracking with our sales and Operating expenses are at 3.46% of total Gross Revenues. Costs are being held down as much as possible from 6% to 86.5% of YTD Budget, which leads us into the changes to the FY 17 Revised Budget.

The lottery is making the changes because of what we are seeing in the first seven months of the year. This will change the projection of our return to the state, our sales and all expenses related to sales. Instant sales are down, drawing game sale are down and all these factors contribute to a request by management for approval on a revised budget to reflect where were at currently.

D. Salzwedel asked what our projected return will be to the state for scholarships. S. Jaramillo reported that our transfer will be \$37.5 million compared to \$43.2 million we originally budget for FY 2017. The lottery returned \$46.3 million last year and this was based on good instant ticket sales and the 1.6 Billion Powerball sales. S. Jaramillo reported that \$3.2 million in unclaimed prize money has been used to meet the 30% statutory requirement return to the state for scholarships for the first seven months of this fiscal year. Without the unclaimed prize fund, the lottery cannot meet the 30% statutory requirement. S. Jaramillo also reported that the lottery has transferred funds as an expense on our income statement from the unclaimed prize fund into its contingency reserve fund as per statute. You can see this on your financial statements in the amount of \$725 Thousand for operational reserve fund. This was also suggested by the financial auditors who advised that there should be more funds in the reserve account.

FY 2017 Consolidated Revised Annual Budget: S. Jaramillo provided an overview of the revised annual budget. The committee was provided sheets of the major changes. Instant ticket sales will be

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reduced by \$14.5 million; Powerball sales reduced by \$8 million; Hot Lotto sales increased by \$1.95 million and the new game that the lottery anticipated would be launched in FY 17 will not be launched, so this line item is reduced by \$2 million and some of that will go into Hot Lotto.

Tickets provided as prizes will be reduced by \$2.6 million. Net ticket sales overall will be reduced by \$18.840 million. Game expense line items were reduced due to the changes in sales, but remained percentage wise close to what they had been in the original budget.

Retailer equipment was reduced by \$270 thousand dollars; purchasing less lottery information centers this fiscal year.

The Overall change to Game Expenses was 13.07% in line with the change in Net ticket sales of 13.08%.


Operating Expenses were reduced \$323 thousand for Salaries, wages, and benefits. This reduction is due in part of waiving a few key positions, one was to assist the CEO and a reduction in benefits because we are now associated with the State of New Mexico for benefits.

S. Jaramillo asked for the committee's recommendation for approval of the FY 17 Consolidated Revised Annual Budget

M. Koson called for a motion to recommend to the full board to approve the FY 2017 Consolidated Revised Annual Budget. D. Salzwedel moved to recommend for approval of the FY 2017 Consolidated Revised Annual Budget; second by J. Kubiak. Carried; 3-0.

Other: None

ADJOURNMENT: M. Koson entertained a motion to adjourn the meeting. D. Salzwedel moved to adjourn the meeting; second by J. Kubiak. Carried; 3-0. The meeting adjourned at 1:32 p.m.



 Mark Koson, Committee Chair
 Date 6/7/17