

**Regular Meeting of Board of Directors**  
**New Mexico Lottery Authority**  
**March 04, 2014**  
**MINUTES**

**Call to Order:** Board Chair D. Salzwedel called the meeting to order at 9:04 a.m. D. Salzwedel asked for a roll call. Present and constituting a quorum were; Mark Koson, Amy Bailey, Dan Salzwedel, John Kubiak and Salvatore Baragiola. P. Guerin and C. Austin absent. D. Salzwedel reported that Mr. C. Austin is in transit due to weather issues and P. Guerin will join the meeting shortly.

The following employees were present from NMLA: David Barden, Sylvia Jaramillo, Adriana Binns, Evelyn McKnight, Pam Poteat, Dave Ramirez, Vince Torrez, Wilma Atencio, Gale Johnson, Michael Boland, Karla Wilkinson, Wendy Creel and Linda Hamlin. Also present were Randy Reeves, Matt Worley, Karen McCullum, Frank Duran and Mary Smith, Attorney General's office.

**Approve Proposed Agenda:** D. Salzwedel called for a motion to approve the proposed agenda. S. Baragiola make a motion to amend the agenda, specifically moving the Contract with the NM Council on Problem Gambling and Procurement of Voice Over Internet Protocol Telephone System from the Operations Committee report to the Finance and Audit Committee report; second by M. Koson. All in favor, 5-0.

J. Kubiak made the motion to approve agenda as amended; second by A. Bailey. All in favor, 5-0.

**Public Comment:** D. Salzwedel stated that if anyone wishes to speak publicly, there is a form that needs to be filled out by the person.

Mary Smith of the Attorney General's Office made a request to make a brief presentation on obligations under the Open Meetings Act at the Board's next meeting. D. Salzwedel noted the request.

**Approve Minutes of November 05, Board of Director's Meeting:** D. Salzwedel called for a motion to approve the minutes from the November 5, 2013 Board meeting. S. Baragiola moved to approve the minutes; second by A. Bailey. All in favor, 5-0.

**Approve Minutes of November 13, Board of Director's Special Meeting:** D. Salzwedel called for a motion to approve the minutes from the November 13, 2013 Special Board meeting. M. Koson moved to approve the minutes; second by A. Bailey. All in favor, 5-0.

**Approve Minutes of December 04, Board of Director's Special Meeting:** D. Salzwedel called for a motion to approve the minutes from the December 04, 2013 Special Board meeting. A. Bailey moved to approve the minutes; second by J. Kubiak. All in favor, 5-0.

**Approve Minutes of February 14, Board of Director's Special Meeting:** D. Salzwedel called for a motion to approve the minutes from the February 14, 2014 Special Board meeting. M. Koson moved to approve the minutes; second by J. Kubiak. All in favor, 5-0.

**Reports:****Interim CEO:**

**General Update:** D. Barden gave a brief update on the Lottery's online and instant ticket games and general overview of Lottery operations. D. Barden reported that in the past few months, he's had an opportunity to evaluate the game portfolio and to implement changes beginning with the Instant Scratcher Products. The Lottery's strategy is to plan out a year on its instant tickets, which will better enable the Lottery with its marketing plan. Beginning March 4, three to four games will be launched the first Tuesday of each month, referred to as "Super Tuesday". This will help excite players and retailers. Scratcher sales should trend up in the coming months.

In addition, the Lottery has implemented a plan-O-Gram program for retailers. The plan-o-gram allows the Lottery to strategically arrange games within dispensers – \$10 games at the top with \$1 games at the bottom, further organized by style, theme and color. The Lottery also wants to emphasize the use of jackpot signs at all retailers. There are 380 stores without signs. Retailer recruitment is also a big issue. The Lottery's goal is to add 100 retailers this year, which may bring in an additional \$3 million in revenue.

The Lottery has enjoyed a couple of Powerball and Mega Millions jackpots and anticipates a few more. To generate additional revenue, a midday draw will be added to the Pick 3 game. Two new games will be introduced -- \$2 Lucky Numbers Bingo and \$5 Red Hot Jackpot Bingo Quicksters. The Red Hot Jackpot Bingo will feature a rolling jackpot with a top prize of \$2,500. These games will need approval at the next Board meeting.

MUSL is considering enhancing Powerball and developing a branding campaign. Additional information will be forthcoming.

The back office system with Intralot is underway and should take six months to implement. We are the last Lottery in the US that has not fully converted to this type of system. The Lottery will retain full control. By not purchasing AS/400s, the Lottery has realized a \$100K savings. Other vendor contract extensions approved at the November 2013 meeting have been realized. The Lottery will save \$40,000 on its contract with GTECH. These funds may be used for training and support. Intralot will purchase approximately \$70,000 worth of digital jackpot signs and the Lottery will procure additional signs.

S. Baragiola requested a briefing at a future Board meeting about the strategy to increase Scratcher sales and the potential impact of offering a higher prize payout.

D. Salzwedel asked if issues with the Disaster Recovery site have been addressed. D. Barden stated yes.

M. Koson asked what types of strategies bring players into stores. D. Barden reported that it's a combination of signage, pump toppers and jackpot signs.

**Open Meetings Notice Resolution:** D. Barden presented the Open Meetings Act and Notice Resolution for Board adoption. D. Barden explained that the resolution needs to be adopted annually as part of the process to ensure the Lottery follows the Open Meeting Act and Notice.

D. Salzwedel called for a motion to approve the Open Meetings Act and Notice Resolution. S. Baragiola moved to approve the Open Meetings Act and Notice Resolution; second by A. Bailey. All in favor, 5-0.

**OPERATIONS Committee Report – S. Baragiola, Committee Chair:**

**Policy Review Changes/Adjustments:** S. Baragiola reported that the Operations Committee met March 3 to review and discuss Operations Policies and Procedures with D. Barden and his staff. A lot of  
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time and effort took place in reviewing, updating and standardized formatting of the policies and procedures. Board members received a draft list of all the policies and procedures that were reviewed and updated and no outstanding policies and procedures exist at this time.

S. Baragiola made a motion that the Board accept Lottery policies and procedures in their entirety as revised updated documents to be presented to the chair through the form of a transmittal letter from the CEO and be formally adopted as updated policies and procedures.

S. Baragiola amended his motion specifically that the Board accept current Lottery policies and procedures as revised to include alpha numeric formatting for each sub-committee; second by J. Kubiak. All in favor, 5-0.

D. Salzwedel reiterated that the Board is approving the policies and procedures having been reviewed, adjusted, repealed and corrected appropriately and formatted and updated alpha numerically.

**FINANCE/AUDIT Committee Report – M. Koson, Committee Chair:**

**FY 2014 Consolidated Revised Annual Budget:** S. Jaramillo presented the FY 2014 Consolidated Revised Annual Budget and the January 2014 Financial Statements.

The FY 2014 Consolidated Revised Annual Budget was presented March 3 to the Finance/Audit Committee for its review. S. Jaramillo presented the highlights to the Board. Instant tickets had a decrease of \$1.5 million; no change to Powerball; Mega Million increased by \$4 million; Roadrunner Cash increased by \$1.6 million; Hot Lotto decreased by \$500,000; Pick 3 increased by \$300,000; Quicksters decreased by \$400,000; and Prize Tickets for Instant games decreased by \$400,000. The total change to net sales is \$3.89 million. The biggest change is increasing prize expense to 54%; ticket vendor fees reduced to 1.65% of instant ticket sales and adding funds to promotions to purchase electronic jackpot signs, information centers for Lottery retailers, additional ticket dispensers and any other additional equipment. Shipping and postage has been reduced by \$74,000 and other changes to operating expenses, bringing net income to \$40.59 million, which gives us an increase of \$1.171 million return to the scholarship fund and meeting our 30% return to the state. Language was added to the sales budget at the bottom of the statement to allow the Lottery to purchase jackpot signs, retailer equipment, Lottery information centers and etc. without having to bring back items to the Board. S. Jaramillo requested approval of the FY 2014 Consolidated Revised Budget. D. Salzwedel asked if the request for approval would include the request to purchase additional equipment as listed in the Sales section. S. Jaramillo stated yes.

M. Koson made a motion to approve FY 2014 Consolidated Revised Annual Budget as presented; second by A. Bailey. All in favor, 5-0.

P. Guerin joined the meeting at 9:36 a.m.

**Financial Statements:** S. Jaramillo presented a detailed review of the January 2014 financial statements. With the transfer made at the end of February, the Lottery has returned nearly \$596.5 million to education. With the next one or two transfers, the Lottery should return \$600 million to the Legislative Lottery Scholarship fund. Fiscal year to date, we have transferred nearly \$24 million. The Lottery has returned 30.15% of gross revenue to the state, exceeding the 30% mandate. Games expenses are in line with net sales and following sales trends.

C. Austin joined the Board meeting at 9:41a.m.

**AUDIT Reports:** M. Koson reported that M. Boland will present items C – 3, 4, 5 and 6. M. Koson reported that these reports were discussed at length in the Finance/Audit Committee. M. Boland reported that he presented four items to the Finance/Audit committee and each one was vetted and discussed in the committee. M. Boland provided an overview of the reports.

**M. Boland presented the 14-001 \$25,000 Monthly Giveaway Second Chance Drawing Audit Report.** M. Boland reported that three separate promotions to give away \$25,000 occurred in July, August and September. All winners claimed their prize. No observations were noted.

**M. Boland presented the 14-003 MUSL Minimum Game Standards Compliance Audit Report.** M. Boland reported that an audit was conducted because the Lottery is part of the MUSL Group - Powerball Group and they have certain standards that require Lottery compliance. This was a compliance audit for five standards. One observation was noted and two recommendations - processes were discussed in length with the committee. Controls are in place and operating effectively.

**M. Boland presented the 14-004 Lottery Bucks Compliance Audit Report.** M. Boland reported that this audit came about because there is an inherent risk with using the Lottery Bucks, which are the same as cash. Management had requested that this be placed on the audit plan last year. Overall, we have tight controls over the use of Lottery Bucks. Employees are providing due diligence in how they issue and track Lottery Bucks. Two observations and two recommendations were noted and they were discussed in committee. Controls are in place and operating effectively.

**M. Boland presented the 14-005 Lotto Holiday Cash Second Chance Drawing Audit Report.** M. Boland reported that there were no observations noted; however, one recommendation was made to ensure that we have enough alternates to give out all the prizes in future second-chance drawing promotions.

M. Boland submitted all four reports for acceptance and approval by the Board.

After confirming that less than 50% of Lottery Bucks had been distributed, D. Salzwedel said the Lottery needs to be more ambitious about using them.

J. Kubiak asked M. Boland to explain his role as an internal auditor. M. Boland described Internal Audit as a quality control measure that adds to the integrity of our books and records. It is independent of Ms. Jaramillo's role and the departments. Internal Audit is accountable to the Board, takes guidance from the CEO, and ensures goals are reached and that controls and security over processes are in place and operating effectively. The annual audit plan is approved by the Board.

M. Koson made a motion to approve the four audit reports as presented by M. Boland; second by J. Kubiak. All in favor, 7-0.

**Policy Review Changes/Adjustments:** There was a lengthy discussion on Policies and Procedures that affected the finance/audit area. The committee was satisfied with the presentation by the CEO and staff. All policies and procedures were reviewed and revisions were discussed in their entirety. M. Koson made a motion that policies related to the finance committee be approved as presented; second by S. Baragiola. All in favor, 7-0.

D. Salzwedel reported that several individuals were involved in vetting policies and procedures for the finance/audit committee. Additions, corrections, and format changes made by staff at the Board's direction were subsequently vetted by the Board and each subcommittee.

**The NM Council of Problem Gambling Contract and the Procurement of Voice Over Internet Protocol (VOIP) Telephone System:** D. Barden reported that both items are information items and no action is needed. Both items were approved in the FY 2014 Revised Budget, which was approved earlier in the meeting. The NM Council of Problem Gambling Contract will be less than \$75,000 and under the terms of the Purchasing Policy, NMLA staff may proceed with the Contract. Regarding Procurement of Voice Over Internet Protocol Telephone System, an RFP will be issued and anticipated the cost will be \$200,000.

**PERSONNEL Committee Report – A. Bailey, Committee Chair:**

**CEO Contract:** A. Bailey reported that a final CEO Contract is being drafted, having received input from the personnel committee, D. Barden and E. McKnight. A. Bailey made the motion to table action on the contract until the next Board meeting; second by M. Koson. All in favor, 7-0.

**Policy Review Changes/Adjustments:** A. Bailey reported the policy changes/adjustments were discussed in committee with D. Barden and E. McKnight. Several Policies were discussed in length. The Short-Term Disability Policy was repealed. The Leave Policy was revised to incorporate changes to make it clearer to employees and by adding the word lottery.

A. Bailey made the motion to accept policies presented to the personnel committee as amended; second by M. Koson. All in favor, 7-0.

**BOARD CHAIR**

**Announcements:** D. Salzwedel welcomed D. Barden to the NM Lottery. D. Salzwedel asked that the Master Calendar be updated and redistributed to Board Members. The next Board Meeting is scheduled for May 5 and May 6, 2014.

**ADJOURNMENT:** D. Salzwedel entertained a motion to adjourn the meeting. A. Bailey moved to adjourn the meeting; second by C. Austin. All in favor, 7-0. The meeting adjourned at 10:03 a.m.