

**Finance Audit Committee Meeting
New Mexico Lottery Authority
June 08, 2016
MINUTES**

Call to Order: M. Koson called the meeting to order at 11:17 a.m., and asked for a roll call. Present and constituting a quorum were; Mark Koson and Dan Salzwedel. Mr. John Kubiak absent.

The following employees were present: David Barden, Sylvia Jaramillo, Michael Boland, Wilma Atencio, Jon Zajdel and Steve Beck with Intralot.

Approve Proposed Agenda: M. Koson called for a motion to approve the proposed agenda. D. Salzwedel 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:

Financial Audit Services Independent Public Accountant (IPA) Recommendation: M. Boland requesting approval of the evaluation committees IPA Recommendation. The lottery received quite a few responses for the RFP for Financial Audit Services. The evaluation process was very comprehensive with lively discussion during the process. M. Boland thanked M. Koson, J. Kubiak and S. Jaramillo who served on the evaluation committee. The committee recommends Clifton, Larson, Allen as the IPA to perform the FY 2016 Financial Audit with a term of one year and an option for two additional years for a total of three years. The contract would be for one year at a time and subject to the State Auditor's approval.

M. Koson concurred with the recommendation and stated Clifton, Larson, Allen is a solid choice.

M. Koson moved to accept the IPA recommendation as presented; second by D. Salzwedel. Carried; 2-0.

FY 2017 Internal Audit Plan: M. Boland is submitting the FY 2017 Internal Audit Plan for approval from the finance audit committee and full board. As requested by the Board, M. Boland contacted several lotteries for a comparison of the lottery's audit plan to lottery industry practices. M. Boland contacted Oklahoma, South Carolina, Vermont and Nebraska and both Oklahoma and South Carolina's audit plan was similar to the lottery. While Vermont and Nebraska follows a different format, because of how their business model is set up. The state is involved in their operations.

M. Boland reported that the FY 2017 Internal Audit Plan is comprehensive, flexible and provides for additional emphasis on information technology audit areas. The lottery needs to ensure our controls are in place and our processes are taking into account all the possible threats, internal and external to our system. In addition, as per the Board's request, Internal Audit changed the word "Risk" to "Priority". The term priority works better for the lottery's audit plan.

D. Salzwedel asked M. Boland to highlight the changes/difference that was made before and after the assessment. M. Boland reported that the lottery's plan and reporting is almost identical to other lotteries, we have different risk/priority criteria that is scored in each audit area. Each individual lottery identifies each priority criteria based on their own preference/assessment of their operational needs. The lottery is in line with other lotteries and audit processes. Our plan is as strong or stronger compared to other lotteries.

M. Koson asked if the number of "hours/total hours" allocated to the audit plan shifted/changed. M. Boland reported no.

M. Koson entertained a motion to approve and recommend to the full board that the FY 2017 Audit Plan be approved. D. Salzwedel moved to approve the FY 2017 Audit Plan as presented; second by M. Koson. Carried; 2-0.

Network Testing: M. Boland provided a brief update on the NMLA's network testing. The Internal Auditor wants the Board and Audit Committee to understand that the lottery is being proactive to address the real risk of Cyber Security threats that are out there and them becoming more prevalent. The lottery now conducts annual penetration testing of the internal and external network, web applications and compliance with policies and procedures. On a semi-annual basis, the lottery conducts a vulnerability scan. Reports are generated from the vendor and Internal Audit accesses these reports. There will be compliance testing on the policies and procedures and all aspects of network security each July to ensure that the policies and procedures are adequate and sufficient for our needs. Also ensuring the lottery's security system, the Vendor's security system and 3rd party vendor's system is in compliance and as strong as can be. Cyber Security is a serious issue. Audit reports issued by the Internal Auditor are sent to the CEO, Board and external IT auditor.

Financial Statements: S. Jaramillo reported through April 2016, the lottery has returned \$39.2 million and has returned 30% each month. The lottery has returned \$693.8 million to the State for education since the inception of the lottery. We are expecting to hit the \$700 million mark with the June transfer. In just 10 months, net instant sales have reached \$70 million and accounted for 53.5% of budget, whereas last year instant sales were more than \$67.1 million and increase of \$2.9 million. An overall increase of 4.3% and we have surpassed the FY 16 Revised YTD budget by more than \$1.2 million or a 1.82% increase over the YTD budget.

Net drawing game sales are at \$60.8 million, \$12.4 million more than last year and \$343,000 more than the Revised YTD budget. Part of this comes from the Powerball run up. With the run up, we were able to catch up and add some to the budget; however, our budget is ahead due to instant sales. Total Operating Revenues is at \$130.8 million, \$1.6 million more than the FY 16 Revised YTD Budget and \$15.3 million ahead of the same period last fiscal year.

Total Operating expenses is at 3.30% of Gross Revenues and at 91.52% of the YTD budget. S. Jaramillo also reported that there is a reserve amount in there and that's what the lottery transferred to the reserve account on the balance sheet - we're at 2.35%, which is a good percentage. Without it, we're at 3.3%. This is in reference to the \$1.21 million of the operational reserve fund.

FY 2017 Consolidated Original Annual Budget: S. Jaramillo presented the FY 17 Consolidated Original Annual Budget. S. Jaramillo reported that the budget is very basic and will be comparing this budget to the revised budget that the board approved back in March 2016. The major changes are:

- Increase of \$2 million to \$87.5 million for Instant ticket sales
- Decrease of \$6 million to \$36 million for Powerball sales, due to the jackpot run up
- Decrease of \$2.3 million to \$2 million for Hot Lotto sales, because of upcoming game changes.
- Increase of \$2 million for a new game to replace Hot Lotto
- Increase of \$1.4 million in tickets provided as prizes for instant games, because we are adding prize tickets to the \$20 instant ticket game going out early next year.
- Overall decrease of \$7.2 million to net ticket sales
- Decrease of \$5.7 million,000 to Prize Expense

- Decrease of \$348,000 for Retailer Commissions, this is due to projection that sales will decrease in FY 17.
- Increase of \$860,000 for On-line vendor fees
- Increase of \$100,000 for Advertising
- Overall decrease of \$4.9 million for total game expenses
- Decrease of \$60,000 for operating expenses
- Decrease in Net Income by \$2.1 million and projecting a transfer of \$43.2 million to the scholarship fund for FY 17. The lottery is projecting a transfer of up to \$46 million to the scholarship fund for this fiscal year.

S. Jaramillo requesting committee's recommendation of approval to the full board for the FY 17 Consolidated Original Annual Budget.

D. Salzwedel asked how many retailers we have and is there an increase or decrease. D. Barden reported that the number of retailers stays constant. The lottery would like to request funds in the next fiscal year for additional equipment that will be used at restaurants or similar types of Businesses.

M. Koson asked why there is a decrease for Roadrunner Cash. S. Jaramillo reported that there was a \$1.2 million incremental sale increase during this jackpot run up and the lottery doesn't anticipate the same run up in FY 17.

M. Koson entertained a motion to approve the FY 2017 Consolidated Original Annual Budget. D. Salzwedel made a motion to approve the FY 2017 Original annual budget as presented; second by M. Koson. Carried; 2-0.

Disposal of Obsolete, Worn Out or Unusable Tangible Personal Property: S. Jaramillo reported that the last item she's presenting is the approval for the disposition of tangible personal property identified as obsolete equipment. These items have been identified by the lottery as both capital and non-capital items with a current resale value of less than \$5,000. These items are either worn out, unusable or obsolete and no longer economical or safe for use by the lottery. All electronic media and licensed computer software will be sanitized or made effectively inaccessible by shredding the software prior to its disposal and erasure or removal of hard drives from computers and digital equipment with storage capabilities. The items will be disposed of in accordance to the NM Lottery's Capital Asset Management Policy through the annual public auction held by the Department of Public Safety, or advertised in publications widely circulated throughout New Mexico or by the use of an acceptable internet website that has been used by other public or corporate entities in the state. In the past, the board has approved that any computers or related equipment be transferred to schools within the state. In addition, this year we have police items on our list and should the board approve, we can donate those items to a police department within the state as well.

S. Jaramillo requests approval for the disposition of the 34 obsolete items per the list provided to the committee and if the board approves the transfer of computer equipment to schools and police equipment to a police department in the state.

S. Jaramillo reported that the police equipment is a result of existing equipment we had stored in the warehouse and trading in two police units. D. Barden mentioned that Wilma has done a great job in managing the fleet. D. Barden reported that when he got to the lottery, he looked at the number of vehicles and type of vehicles we had and the lottery has been able to reduce that accordingly in the past year and a half. This year we traded in five vehicles and we received a check back for \$6 thousand dollars for vehicles that were no longer needed. This helps with car insurance and everything else. M. Koson stated great news.

D. Salzwedel made a motion to allow the lottery to dispose of obsolete equipment as presented with School Districts and Police Departments or as otherwise provided by agency policy; second by M. Koson. Carried; 2-0.

Other: None

ADJOURNMENT: M. Koson entertained a motion to adjourn the meeting. D. Salzwedel moved to adjourn the meeting; second by M. Koson. Carried; 2-0. The meeting adjourned at 11:46 a.m.



Mark Koson, Committee Chair

Date 8/17/16