

**Regular Meeting of Board of Directors  
New Mexico Lottery Authority  
March 16, 2017  
MINUTES**

**Call to Order:** Board Chair Dan Salzwedel called the meeting to order at 1:35 p.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson; Dan Salzwedel, John Kubiak, Paul Guerin, Sal Baragiola and Claude Austin via telephone. Absent – Amy Bailey.

Present from NMLA were; David Barden; Sylvia Jaramillo; Michael Boland, Wendy Ahlm and Wilma Atencio. Also present were; Mary Stanford with Intralot.

**Approve Proposed Agenda:** D. Salzwedel entertained a motion to approve the proposed agenda. J. Kubiak made a motion to approve the proposed agenda; second by M. Koson. Carried; 6-0.

**Approve Minutes of November 16, 2016 Board of Director's Meeting:** D. Salzwedel entertained a motion to approve the November 16<sup>th</sup> minutes. J. Kubiak moved to approve the minutes; second by M. Koson. Carried; 6-0.

**Public Comment:** None.

**REPORTS:**

**Personnel – A. Bailey, Committee Chair:**

**CEO – Evaluation/Contract:** D. Salzwedel reported on behalf of A. Bailey who is absent from today's meeting; this item will be reviewed by the Personnel committee and discussed at the next regular board meeting.

D. Salzwedel made a motion that the Board, authorize the Personnel Committee to review the CEO's current employment agreement and take such actions as may be necessary and prudent to continue the CEO's employment with a new employment agreement. Also, that any mutually agreed to employment agreement may be implemented upon approval of the Personnel Committee, subject to ratification by the Board; second by J. Kubiak. Carried; 6-0.

**Other:** None.

**Finance/Audit – M. Koson, Committee Chair:**

**Complimentary User Entity (CUE) Controls Consulting Engagement:** M. Koson reported that this item was presented by M. Boland at the last finance audit committee in October 2016. The committee reviewed and vetted the report and recommended to accept the report for approval by the Board.

M. Koson entertained a motion to accept and approve the Complementary User Entity Controls Consulting Engagement report as reviewed and vetted by the Finance Audit Committee; second by J. Kubiak. Carried; 6-0.

**LOTOS Access Engagement:** M. Koson reported that the LOTOS Access Engagement report was presented, reviewed and vetted by the Finance Audit Committee. The committee recommends that the report be accepted and submitted to the Board for acceptance for approval.

M. Boland provided a brief overview of the LOTOS Access Engagement report. LOTOS is the online vendors processing system which consists of the online gaming system and the Back-Office System (BOS). Internal Audit completed an analysis with security to evaluate the present condition of LOTOS Access

controls and configurations and to offer solutions to improve the design and operational effectiveness of controls, role configurations and procedures of the game processing system. The lottery made a number of enhancements to LOTOS based on lottery best practices; the LOTOS Access Engagement will be reviewed from time to time according to the audit plan schedule.

M. Koson made a motion to accept the LOTOS Access Engagement report as presented for acceptance and approval; second by J. Kubiak. Carried, 6-0.

**Disaster Recovery Testing Review:** M. Koson reported that this item was presented to the Finance Audit committee by M. Boland. This report and the process of testing the disaster recovery was thoroughly reviewed and vetted by the committee. The committee is comfortable with the process and results and further recommends that this report be accepted for approval by the Board.

D. Salzwedel reported and reminded Board that the committee and board meeting documents were made available to the Board prior to today's meeting and all members have reviewed the documents.

S. Baragiola asked how often the disaster recovery testing takes place. M. Boland reported that there are two components, one for the lottery which is tested annually and the other component is for the online vendor Intralot and their testing is done 2 times per year.

M. Koson made a motion to accept the Disaster Recovery Testing Review as presented; second by J. Kubiak. Carried, 6-0.

**Financial Statements:** M. Koson reported that this is an information only item and S. Jaramillo presented the financial statements to the finance audit committee. M. Koson deferred to S. Jaramillo who provided a brief overview. S. Jaramillo reported through January the lottery has returned \$22,072,598 to the Legislative Lottery Scholarship. \$2.1 million less than budget; \$5.9 million less than last year.

Net instant sales were approximately \$41.9 million for the first seven months compared to \$45.3 million for last year; \$3.3 million less this year and \$4.7 million less than budget, which is a 10.13% drop from budget. This can be attributed to our prize payout dropped to 61% this year compared to 63.5% last year. We've had to pull back payout to meet our 30% return.

Net drawing game sales are down \$16.2 million from last year because last January we had the \$1.5 billion run up for Powerball.

Operating Revenues are totaling \$73.5 million, which were \$8.1 million less than budget and \$19.5 million less than last year for all sales.

Game Expenses are tracking where they should be with our sales, most of them are direct and all are in line with net sales.

Operating expenses are at 3.46% of total Gross Revenues, costs are being held as much as possible from 6% to 86.5% of budget.

**FY 2017 Consolidated Revised Annual Budget:** M. Koson reported that this item is an action item and was presented by S. Jaramillo to the Finance Audit committee where it was reviewed and vetted. D. Salzwedel reported that based on real data actual figures, the lottery is down \$7 to \$8 million dollars resulting in a 13% drop.

S. Jaramillo provided an overview of the FY 2017 Revised Annual Budget and will highlight the biggest reduction or changes. Instant ticket sales will be reduced by \$14.5 million; Powerball sales will be

reduced by \$8 million; Hot Lotto sales increased by \$1.95 million and the new game that was set to launch will not be launched, so this will result in a reduction of \$2 million. Tickets provided as prizes (free tickets) will be reduced by \$2.6 million; the lottery has a \$20 game sitting in the warehouse that has not been launched which included prize tickets will not be launched because of transfer mandates. Net ticket sales will have an overall reduction of \$18.840 million. The effects of reducing our net sales, is a reduction to our transfer to the lottery scholarship fund to \$37.5 million dollars for the year from \$43.2 million, a difference of \$5.6 million.

Another change the lottery made is to the salary, wages and benefits bringing it down by over \$300 thousand dollars. This is due to positions that haven't been filled and joining the state health plan has saved the lottery some additional monies. The lottery is also reducing retailer equipment by \$270 thousand dollars; we will be purchasing less lottery retailer equipment (Lottery Information Centers (LICs) this fiscal year.

D. Salzwedel entertained a motion to approve the FY 2017 Consolidated Revised Annual Budget. S. Baragiola made a motion to accept the FY 2017 Consolidated Revised Annual Budget as submitted including the addendum; second by M. Koson. Carried, 6-0.

**Other:** None.

**Operations – S. Baragiola, Committee Chair:**

**Approve Minutes of November 16, Security Operations Committee Meeting:** S. Baragiola deferred to P. Guerin for this section due to S. Baragiola's absence at the previous Operations Committee and Board meeting. P. Guerin made a motion to approve the November 16<sup>th</sup> committee meeting minutes as presented; second by D. Salzwedel. Carried; 6-0.

**OTHER:** None.

**CEO Update:** D. Barden provided a brief update on operations. D. Barden reported for the past several weeks, the CEO has spent significant time on lottery legislative issues at the office and in Santa Fe. The lottery bill is on third reading on the House Calendar and should be coming up for a vote soon. We will continue telling legislators that SB 192 is a good legislation and it is modeled after a majority of lotteries. The lottery will continue its efforts until the end of the session.

The other bill that the lottery is tracking is HB 250 which is currently in a Senate Committee and is waiting to be discussed.

The CEO reported that he doesn't have any additional comments on finance other than the lottery will be in a precarious situation next year because we won't have a \$20 ticket out and this will impact sales. Depending on what happens legislatively we may have to pull our \$10 ticket as well.

D. Barden reported that Oklahoma lottery has a legislation bill to eliminate its mandate and has been advised that this legislation just passed the House of Representatives and they don't anticipate any issues with the Senate. It will be just a matter of time that Oklahoma will see relief from its mandate.


**Open Meetings Notice Resolution:** D. Barden reported that the Open Meetings Notice Resolution is a document that the lottery adheres to in conducting Board and Committee meetings which outlines the requirements in posting of meeting notices, minutes and other requirements as dictated by the Open Meetings Act. This document needs to be approved annually by the Board.

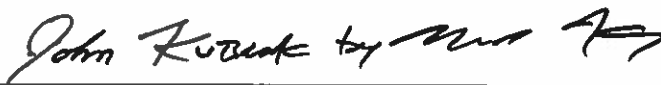
D. Salzwedel entertained a motion to approve the Open Meetings Notice Resolution. M. Koson made a motion to approve the Open Meetings Notice Resolution; second by S. Baragiola. Carried, 6-0.

**Other:** None.

**Other Items:** None.

**Adjournment:** D. Salzwedel entertained a motion to adjourn. J. Kubiak moved to adjourn the meeting; second by M. Koson. Carried; 6-0. The meeting adjourned at 2:06 p.m.

  
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Dan Salzwedel, Chairman  
Date 6/7/17

  
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John Kubiak, Secretary/Treasurer  
Date 6/7/17