

Finance Audit Committee Meeting
New Mexico Lottery Authority
August 17, 2016
MINUTES

Call to Order: M. Koson called the meeting to order at 10:15 a.m., and asked for a roll call. Present and constituting a quorum were; Mark Koson and Dan Salzwedel. J. Kubiak absent.

Present from NMLA were; David Barden, Sylvia Jaramillo, Michael Boland and Wilma Atencio. Also present were; Matt Bone, Jane Tinker, Elizabeth Nunez and Richard Encinias with CliftonLarsonAllen; Othiamba Uni with Think New Mexico and Jon Zajdel 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:

Audit Entrance Meeting: S. Jaramillo introduced the new Financial Auditing Firm – CliftonLarsonAllen who will be auditing the NMLA this year. S. Jaramillo reported that CliftonLarsonAllen has been onsite since August 15th and will be conducting their financial audit over the next three weeks. S. Jaramillo introduced Matt Bone, Engagement Principal. M. Bone introduced the engagement team; Jane Tinker, Engagement Director; Elizabeth Nunez, In-Charge Associate and Rich Encinias, Associate.

J. Tinker provided a brief overview of the financial audit including the required communications, planned scope and timeline. The planned scope includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, obtaining an understanding of the entity and its environment, internal controls and all other standard areas included under Auditing Standards. Once the audit is complete, the audit will be further reviewed by CliftonLarsonAllen and submitted to OSA by October 20, 2016.

M. Boland and members of CliftonLarsonAllen left the finance audit meeting.

Fiscal Year 2016 Financial Statements: S. Jaramillo provided an overview of the FY 2016 financial statements. S. Jaramillo advised she will be reviewing pages 2, 5, and 6 of the financial statements provided. The lottery returned \$46,324,157 to the Legislative Lottery Scholarship program and has met the statutorily required 30% return each and every month. The net revenue is \$961,000 dollars more than the revised FY 16 budget; \$5.2 million more than fiscal year 2015 resulting in a 12.65% increase over fiscal year 2015. The return for fiscal year 2016 is nearly \$3.9 million more than the fiscal year 2016 Consolidated Original Annual Budget that was approved last June 2015. The lottery has returned nearly \$701 million to the State of New Mexico for education.

Net instant sales (after deducting prize, spoiled and stolen tickets) were approximately \$83 million. Instant ticket sales increased by more than \$3.1 million, whereas last year net instant sales were nearly \$80 million - a 3.9% increase; surpassing the FY 16 Revised budget by \$730,000. This is not on your financial statements but net instant ticket sales surpassed the FY 16 original annual budget by nearly \$1.9 million that was approved back in June.

Net drawing game sales were approximately \$71.2 million. The lottery ended 2016 \$2.4 million ahead of the Revised FY 16 budget. Again, this isn't on your financial statements, but net drawing game sales

were \$11 million more than the FY 16 original annual budget approved in June. The lottery revised drawing games sales up by \$8.6 million in the revised budget. Net drawing game sales were over \$14 million more than net drawing sales for FY 2015. Powerball sales were \$15.6 million more than last fiscal year, and Roadrunner Cash were \$1.1 million more than last year. Mega millions were \$652,000 less than last year and Hot Lotto sales were \$1.7 million less than last year.

Total Game Expenses ended the year at 101.36% of the revised budget—while operating revenues ended at 102.08% of budget—tracking very closely to each other. Actual game expenses were 66.80% of Gross Revenues; the Budget was 67.30% of gross revenues. Game Expenses were nearly \$12.3 million more than last fiscal year; due to higher sales in fiscal year 2016 and because the on-line vendor fees increased at the end of November 2015.

Operating expenses ended the year at 3.17% of total Gross Revenues – but without the operational Reserve Fund Expense were 2.37% of gross Revenues. Comparing the total operating expenses without the reserve for this year to last year shows a \$1.4 million decrease with \$876,000 being in salaries, wages and benefits. We also saved approximately \$160,000 by purchasing this building and not leasing it. This includes the \$40,000 that we paid in interest expense that is shown below on the financial statements. D. Salzwedel commented that management should be commended on it tremendous savings and maintaining those savings in this economy.

D. Salzwedel asked what the lottery anticipates in savings next year by purchasing the building. S. Jaramillo reported that approximately \$27,000 for the property taxes alone. Additional savings is undetermined at this time, since the lottery is now responsible for maintaining the building and unknown expenses may come up in the year. The lottery does plan on replacing the carpet this year; this is considered a capital item with depreciation value and will not impact the budget.

M. Koson reported what agency/organization in NM can attest to a 12-13% increase in revenue and cut there operating budget by 3% and more impressive is how the lottery restructured and decreased its salaries, wages and benefits by \$876,000 dollars and continues to maximize its revenue as best as it can.

Addendum to NMLA Consolidated Approved Budget: S. Jaramillo presented the Addendum to the New Mexico Lottery Authority Board of Directors' Approved Fiscal Year Consolidated Original Annual Budget/ Fiscal Year Consolidated Revised Annual Budget. This addendum was previously presented in June 2014 when presenting the FY 15 Consolidated Original Budget. This addendum provides for the day to day operational flexibility of the lottery by the Board of Directors to the lottery CEO. These two items will be added to the previously approved addendum. Below is the two additions added:

- 1) For the reallocation of funds budgeted for capital asset expenditures, which are part of the budgets that the board reviews and approves every year. The lottery requests that the CEO have the authority to reallocate these funds to other capital asset categories, as long as the depreciation expense on the income statement remains within the budgeted amount. This flexibility is important now that the lottery owns this building. It will enable the lottery to address unplanned capital purchases, such as an air conditioner unit that stops working and needs replacing quickly. By approving this, this will allow the CEO to reallocate those funds when needed.
- 2) For the expenditure of funds for the SGI Points and Rewards program for extensions two and three of the contract as authorized by the Board. *S. Jaramillo reported that this amount is already committed on the balance sheet under "players program" for \$810,000 dollars for extension two and three of the contact previously authorized by the Board.*

S. Jaramillo requests approval of the Addendum by the committee. S. Jaramillo advised that this all in keeping with the NM Lottery Act and Board approved lottery policies.

Once approved, this addendum will become part of each Consolidated Original and Revised Annual Budget that you approve, including the FY 2017 Consolidated Original Annual Budget approved on June 8, 2016.

D. Barden reported that during budget preparation last year, the lottery came up with certain provisos that we thought needed to be attached to the budget each year. It failed to get carried over into this year's approved budget so we're trying to correct – just an oversight of not having it attached to the approved FY 2017 Budget.

D. Barden reported great news with the Points & Rewards Program. The \$75,000 fee for year three has been eliminated and the lottery will be getting \$14,000 concession to print another instant ticket with SGI. All in all, we have reduced the fee by \$90,000 for this year to carry forward. It provides \$33,000 dollars in prizes each month. In addition, discussion has taken place that a Points & Rewards program will be added to the next Instant Ticket RFP.

M. Koson entertained a motion to approve the Addendum to the NMLA Consolidated Approved Budget as presented. D. Salzwedel made a motion to approve the Addendum to the NMLA Board of Directors' Approved Fiscal Year Consolidated Original Annual Budget/Fiscal Year Consolidated Revised Annual Budget as an attachment to previously approved Budget; second by D. Salzwedel. Carried; 2-0.

Business Meal and Travel Policy: S. Jaramillo presented changes to the Business Meal and Travel Policy. S. Jaramillo provided memoranda to the committee detailing the changes.

Pages 4 and 5 – Section III – Meal Reimbursements:

- Changes were made to allow for the use of GSA or other applicable federal entity rates for location-specific destinations for meal reimbursement when traveling on business when it is different from the standard rate of \$51 for a full day and \$38.25 for a partial day. The GSA specific location rate must be attached to the Out-of-State Travel Approval Form and to the expense report. The rate must be used for the entire duration of travel.

Page 9 – Section VII – Expense Reimbursement Procedures:

- Require employees and board members to submit travel expenses on a separate expense report within 15 business days of the completion of the travel, but no later than the 5th business day of the subsequent month.

Page 11 – Out of State Travel Approval Form:

- The form was update to conform to the change in the policy by adding “other applicable federal rates”.

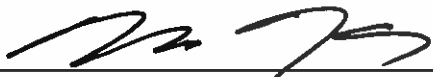
S. Jaramillo requests approval of the changes to the Business Meal and Travel Policy.

D. Salzwedel commented what these changes really are bringing these in commensurate with the expenses that are usually associated with trips in areas that cost more than the regular allotment. S. Jaramillo stated “yes”.

M. Koson called for a motion to approve the Business Meal and Travel Policy. D. Salzwedel made a motion to approve the Business Meal and Travel Policy as presented; 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 10:42 a.m.



Mark Koson, Committee Chair
Date 11/16/16