

**Finance Audit Committee Meeting
New Mexico Lottery Authority
January 14, 2019
MINUTES**

Call to Order: D. Salzwedel called the meeting to order at 12:01 p.m. and asked for a roll call. Present and constituting a quorum were; Aubrey McGowen and Dan Salzwedel. John Kubiak absent.

Present from NMLA were; David Barden, Carolyn Cabell, Sylvia Jaramillo, Kevin Duda, Michael Boland, Sal Baragiola and Wilma Atencio.

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve the proposed agenda. A. McGowen moved to accept the proposed agenda as presented; second by D. Salzwedel. Carried; 2-0.

Public Comment: None.

FINANCE AUDIT Committee Report:

Capital Asset Management Policy Revision: S. Jaramillo reported that the lottery is updating the Capital Asset Management Policy to address the finding in the audit report, by adding new language and updating editorial changes. The new language added is on page 7 of 8 of the policy under "Trade-in, Transfer, or Disposal of Assets". The lottery added the first sentence to the policy that states "New Mexico Lottery vehicles will only be traded in on the purchase of other vehicles, unless otherwise approved by the New Mexico Lottery Authority Board of Directors." By adding this language, the Board of Directors will be advised of any transaction regarding fleet vehicles, other than trade ins. In addition, the lottery added some language to the policy on page 3 to clarify property, plant and equipment and cleaned up some language in the policy. The final change occurred on page 6, the lottery removed the section relating to tenant improvements. The lottery now owns the building and we no longer have tenant improvements.

S. Jaramillo is requesting approval and recommendation from the committee of the updated Capital Asset Management Policy.

A. McGowen made a motion to approve the recommended changes to the Capital Asset Management Policy as submitted and recommend to the full board for approval; second by D. Salzwedel. Carried; 2-0.

Financial Statements: S. Jaramillo reported on the November 2018 financials. The lottery has returned \$3,031,000 for the month to the state for the tuition fund. With this transfer, we have transferred \$18.7 million to the scholarship fund for fiscal year 2019 and have met the statutorily required 30% return. However, the lottery has used \$1,065,700 in unclaimed prize funds to meet the 30% return in 4 of the 5 months of the year. The only month the lottery didn't use the unclaimed prize fund was October, when we had mega sales due to the large jackpots for both Powerball and Mega Millions. If we did not have the unclaimed prize fund, the lottery would not have met the statutory 30% return. During the last 11 years, five months, the lottery has used unclaimed prizes over 83.21% of the time to meet the mandated return – 114 out of the 137 months during this time.

The net income for the fiscal year is \$3.5 million more than the FY 19 YTD budget or 23.32% more, but only \$2.2 million more than for the same period in fiscal year 2018 – a 13.19% increase over last fiscal year. We are \$2 million more than last year due to the \$1.5 billion jackpot for Mega Millions and the \$687 million Powerball jackpot.

With the transfer, we will have returned nearly \$800 million to the State of New Mexico for education since the inception of the Lottery and should reach this milestone in January with the transfer for December 2018.

Net instant ticket sales through November 2018 were approximately \$29.19 million, whereas YTD Net Instant Sales through last November were approximately \$29.2 million – a decrease of \$12,600 this year or virtually flat scratcher sales compared to last year. Net Instant sales for the first five months surpassed the FY 19 YTD Budget by \$985,000 or 3.49%.

Net drawing game sales for the first five months were approximately \$33 million. Net drawing sales ended November approximately \$9.9 million more than the YTD 2019 Budget or 43.17% more than the Budget. Net drawing sales through November 18 were nearly \$7.3 million more than net drawing sales for the same five months in fiscal year 2018 or 28.26% more than the \$25.7 million drawing game sales in fiscal year 2018.

D. Salzwedel asked what is the proportionate payout for this quarter? S. Jaramillo reported 54.16% thru November. D. Salzwedel asked if this amount was lower than last year. S. Jaramillo reported that due to the restriction of the 30% and other expenses, the percentage stays the same in the 54% range. The lottery was at 54.62% last year. D. Barden reported that scratcher payout should be higher than online.

Total Game Expenses ended at 119.57% of the YTD Budget—while total operating revenues ended at 120.83% of budget—tracking close to each other. Total Operating expenses ended November at 3.60% of Gross Revenues. Each line item of Operating expenses for this fiscal year are being held as much as possible and are less than budgeted amounts. S. Jaramillo reported that purchasing the building has kept expenses down.

D. Barden reported that administrative costs have come down. In FY17, the administrative cost was 3.4% and in FY18, we were at 2.6%.

D. Salzwedel asked has any of the policies by the city, county or state in terms of employees or insurance impacted our operational budget significantly? S. Jaramillo reported no because the lottery pays more than minimum wage even for the lower grade positions and we joined the state health insurance plans 3 years ago and this has held down our percentage growth every year. We were getting 10-15% increases. D. Barden reported that if we didn't change to the state plan, the lottery wouldn't afford private health care.

S. Baragiola requested an end of the year executive summary on finances. A historical document that would provide an insight of the finance trends during the year. A highlight – A year in review for board members who don't attend the finance audit committees.

D. Barden reported that he will be presenting “where the dollar goes” at the board of director's meeting and W. Ahlm will be providing a marketing update along with cost efficiencies.

D. Salzwedel reported that this has been done before. An overview for the committee. D. Salzwedel requested that all past minutes be provided to any incoming board members which will provide them a historical overview of what has transpired in the past.

D. Salzwedel entertained a motion to approve the financial statements. A. McGowen moved to accept the financial statements as presented; second by D. Salzwedel. Carried; 2-0.
This is an information item only.

Procurement Process Engagement: M. Boland reported that the CEO requested Internal Audit to review lottery's procurement process and offer recommendations to enhance the efficiency and effectiveness of the process independently and objectively. M. Boland reported that the Purchasing Policy was revised at the last board of director's meeting and this engagement took place during the same time. Internal Audit has five (5) recommendations to offer best practice recommendations/suggestions to enhance current controls and business practices. These recommendations to the procurement process will significantly improve operations to better meet lottery goals and objectives while adhering to the general principles of the NM Procurement Code and coincide with the newly update Purchasing Policy. It will reduce paper work; time cycle will be quicker and provide more time to address other non-procurement related duties.

S. McGowen asked based on the conclusion, once the changes are made, will the procurement process still be transparent. M. Boland stated yes. The controls are still in place, this will just enhance the procurement process while addressing the inefficiencies.

D. Salzwedel stated that item #3 of the recommendations encourages staff to use a credit card versus a purchase order. Is there a threshold for this right now? D. Barden stated yes, the lottery is in the process of revising its procedures that will address these thresholds. We are still working under the current policy which has a threshold as well.

D. Salzwedel asked how will credit card purchase be tracked. M. Boland reported that all credit card purchases will be approved by direct supervisors, expense reports turned in monthly and all credit card activity will be reconciled through accounting. Staff members have different credit card levels based on their job descriptions, for example a marketing employee may have a \$4,000 limit, while a warehouse employee will have a \$1,000 limit.

D. Barden reported that the lottery is reviewing its current process using the procurement code as a guide. The levels in the procurement code are much higher than our current process. S. Jaramillo is working on a revised procedure and should be ready for review by next week. D. Salzwedel asked who supervises the procurement process. D. Barden reported the CEO does.

M. Boland requested approval of the Procurement Process Engagement report.

A. McGowen made a motion to approve and recommend to the full board for approval of the Procurement Process Engagement as presented; second by D. Salzwedel. Carried; 2-0.

NMLA Credit Cards and Expense Reports Review: M. Boland reported that the NMLA Credit Cards and Expense Reports review is part of the FY 2019 Audit Plan. The objective was to ensure the credit cards are used according to company guidelines, ensuring that Internal controls and accounting procedures regarding credit cards and expense reports are sufficiently designed and operating effectively. The last audit in this area was FY 2012. Internal Audit is happy to report that there are no observations. Very strong controls over credit cards and expense reports. There are no recommendations or observations to report. Internal Audit reported that he expanded his scope by testing 17 of 21 employees assigned a credit card (81%) of total employees. The 4 that weren't tested were either new card holders or had minimal card activity. All departments were represented. This was a comprehensive review. No issues of any type.

A. McGowen made a motion to accept this report and recommend to the full board for acceptance of the NMLA Credit Cards and Expense Reports review report as presented; second by D. Salzwedel. Carried; 2-0.

S. Baragiola asked if there is a sub-policy on credit card limits. If he had a \$14,000 limit, is there a single purchase credit card limit? M. Boland No. If an employee has a limit and the purchase goes beyond that

limit, he or she will need to get approval from his or her supervisor for the purchase and follow the guidelines that will be in the purchasing procedure. If the employee does not adhere to the policy, the employee will be terminated.

D. Barden reported that credit card and purchase order purchases will be covered in a master policy to cover both parts while adhering to the procurement code. The procurement code does state for small purchases up to \$20,000.

Financial Audit Services RFP: M. Boland reported that the lottery goes out to for RFP for Financial Audit Services every three years and in FY 2019, the lottery will issue an RFP for Financial Audit Services once the lottery gets approval from the State Auditor's office. M. Boland has requested two members of the Finance Audit committee to serve on the evaluation committee. M. Boland does not know how long the evaluation will be, it will depend on number of RFP responses. The RFP will be issued end of March or early April 2019. The evaluation will take place in May. An audit firm must be selected and approved by the State Auditor by June 1st. M. Boland will keep finance audit committee updated of the process.

D. Salzwedel reported that he and A. McGowen will volunteer and participate in the upcoming Financial Audit services RFP evaluation committee pending no upcoming changes to the Board of Directors. S. Baragiola will be an alternate, if needed.

Other: None.

ADJOURNMENT: D. Salzwedel entertained a motion to adjourn the meeting. A. McGowen made a motion to adjourn the meeting; second by D. Salzwedel. Carried; 2-0. The meeting adjourned at 12:48 p.m.



Dan Salzwedel, Committee Chair

Date 4-2-19