

Finance Audit Committee Meeting
New Mexico Lottery Authority
June 06, 2018
MINUTES

Call to Order: M. Koson called the meeting to order at 10:32 a.m. and asked for a roll call. Present and constituting a quorum were; Mark Koson, Dan Salzwedel and John Kubiak.

Present from NMLA were; David Barden, Sylvia Jaramillo, Michael Boland and Wilma Atencio.

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 J. Kubiak. Carried; 3-0.

Public Comment: None.

FINANCE AUDIT Committee Report – M, Koson, Committee Chair:

FY2018 Financial Audit Contract Extension: M. Boland reported that Internal Audit is requesting approval from the committee and Board to enter into the second and final contract extension with CliftonLarsonAllen LLP to perform the 2018 fiscal year-end Financial Audit Services. The lottery selected CliftonLarsonAllen LLP as the audit firm to perform the Financial Audit Services through an RFP Process in 2016. The RFP allowed for a one-year contract with two one-year extensions. The cost of the contract per year is \$42,000. A new RFP for Financial Audit Services will be issued in 2019.

J. Kubiak made a motion for a recommendation from the committee to the full board to approve and to proceed with the FY 2018 Financial Audit Contract Extension; second by D. Salzwedel. Carried; 3-0.

Warehouse Processes Review Report: M. Boland reported that Internal Audit was requested by the CEO to perform an assessment of warehouse processes/procedures to determine whether staffing levels are appropriate for the lottery of our size. Based on the information gathered and analysis, the lottery is properly staffed with four employees (1-warehouse supervisor and 3-techs). M. Boland reported that 58% of their time is spent on ticket related processes and 42% to non-ticket related processes. The Internal Auditor suggests that management consider this mix when strategizing future business needs and objectives. Additionally, the Internal Auditor made recommendations to enhance warehouse operations and processes with less staffing.

S. Jaramillo reported that the warehouse staff works diligently and efficiently. The supervisor has over 15 years of experience and they all have multipurpose duties such as pick and pack, facility and fleet. The lottery has been looking for a new employee for over six months and may have a new hire this afternoon.

D. Salzwedel asked what methodology was used for its analysis. M. Boland reported that Internal Audit established review objectives by understanding warehouse processes and procedures through an inquiry of every process and assessment by estimated time to perform each task. The Internal Auditor also reviewed forms, procedures and other relevant documents used by the warehouse and compared key performance metrics for instant ticket shipping with another lottery of similar instant ticket sales revenue for perspective on staffing levels.

D. Salzwedel made a motion to accept the report as presented; second by J. Kubiak. Carried; 3-0.

Lotto America Extravaganza Promotion Review Report: M. Boland reported that the lottery has not conducted an audit on In-house drawings with these dollar values since 2015; therefore, Internal Audit proceeded with this audit. The Internal Auditor wanted to ensure that our processes were still in place

and secured. The promotional drawing consisted on 12 weekly drawings with one top prize of \$5,000 and 5 - \$1,000 winners. All seventy-two (72) prizes were claimed; 69 of those were claimed by the primary winner and 3 were claimed by alternates. M. Boland reported that overall everything went well. The drawing was conducted in accordance with the NMLA Rules and Procedures and the Lottery Act which promote the security, fairness and integrity of the drawing process. Internal Audit found two (2) observations that were remediated, and additional process was included in the process to ensure that this type of observation would not occur in future in-house drawings.

D. Barden reported that this was a special promotion to bring awareness to the new game. The funding for this promotion was provided by MUSL. Any prizes not awarded at the end of the promo, will be returned to MUSL. D. Barden reported that there was a good response rate on this game.

M. Koson entertained a motion to accept the Lotto America Extravaganza Promotion Review Report. J. Kubiak made a motion to accept the Lotto America Extravaganza Promotion Review Report as presented; second by D. Salzwedel. Carried; 3-0.

FY 2019 Audit Plan: M. Boland presented the Internal Audit Plan for FY 2019 and advised that pages 1-3 provides an overview of the plan. The plan is primarily based on a comprehensive priority assessment that guides Internal Audit's focus such as identifying audit areas, descriptions of those areas, establish priority criteria, preparing a priority model which is used to calculate a weighted total for each audit area based on a 6-step process and prioritize those weighted areas.

Page 4 of the plan is the actual Audit Plan. M. Boland reported that this report is flexible, dynamic and can change at any time based on business needs, executive management needs or other priorities that the lottery or Internal Audit was not aware of at the time the plan was developed. The plan is also based on prior audits, budget and input from staff. There are some new items included that management requested and some activities that have not been reviewed in several years.

J. Kubiak asked if the audit plan has shifted the emphasis from prior years. M. Boland reported not necessarily. Internal Audit has added new activities and items that have not been audited in a while; however, it could be in the same audit area, just a different subsection. For example: Payables Management is an audit area that has been tested, but this audit plan calls for an audit on the expense reports engagements, a specific area of payables managements, which has not been tested since 2011. M. Boland reported that often times in audits, you can expand the scope of pull it back to a certain specific piece, but both are valuable in audits.

D. Salzwedel asked if Internal Audit has a master plan for its audit plan. M. Boland reported yes, there is. Historical records drives the master plan, as well as future audit plans.

M. Koson called for a motion to approve the FY 2019 Audit Plan. D. Salzwedel moved to accept and approve the Audit Plan as presented; second by J. Kubiak. Carried; 3-0.

FY 2018 Consolidated Original Annual Budget: S. Jaramillo provided an overview of the FY 2019 Consolidated Original Annual Budget. S. Jaramillo provided a recap sheet of the consolidated budget showing the changes.

Some of the major changes are:

Instant ticket sales	Increased by \$2,500,000 or 3.45%
Powerball sales	Decreased by \$500,000 or 1.72%
Mega Millions sales	Decreased by \$500,000 or 4.55%
Hot Lotto sales	Ended in October and was replaced with Lotto America

Lotto America sales	Increased by \$1,000,000 or 33.33%
Pick 3 sales	Decreased by \$900,000 or 16.67%
Pick 4 sales	New Game-Projecting \$1,800,000 in sales
Net ticket sales	Overall increase of \$1,600,000 or 1.25%

Game expense (prize expense, retailer commission, on-line vendor fees and ticket vendor fees) line items were increased due to the changes in sales but remained close percentage wise to what they had been in the FY 18 Revised Annual Budget-as indicated in green highlights. Advertising was increased by \$324,000 or 15.99% and is only \$150 thousand more than the FY 2018 Original Budget. The biggest change to Operating Expenses is in Salaries, wages and benefits, which were increased by \$381,000 or 14.88%. This increase is due to adding 3-4 new employees (COO, Communications, Researcher and possible another Security personnel) that the CEO has discussed with the board. Overall the Operating Expenses are 3.18% of Gross Revenues compared to 2.72% in the FY 18 Revised Budget.

This FY 2019 Consolidated Original Annual Budget will return an additional \$474,000 or 1.24% more to the Legislative Lottery Scholarship Fund compared to the FY 18 Revised Annual Budget. The lottery is projecting a \$40.2 million return to the scholarship fund for the fiscal year – approximately \$3 million for May 2018 and possibly another \$3 million for June. Last year, the lottery returned \$37.8 million to the lottery tuition fund. The FY 2019 Budget is flat compared to the revised budget. The lottery is keeping sales conservative, since we can't project what the jackpots will do in the upcoming fiscal year.

S. Jaramillo also reported that the lottery is looking at completing several capital asset projects in FY 19, such as repainting the exterior building and adding a new logo, bathroom upgrades, claims center upgrade, a new UPS unit, completing an analysis on the asphalt and purchasing sales equipment (new automated dispensers) to try out at a few retailers and see if any retailers are interested in purchasing them. These new dispenser units come with an annual maintenance fee of \$36,000.

D. Barden reported that there is a slight change to page 25, last bullet item and should state "The expenditure of funds for the SGI Player Rewards Program as authorized by the board.

The committee requested to see an updated organizational chart for the lottery and where the new positions fit in.

M. Koson called for a motion to approve the FY 2019 Original Annual Budget. J. Kubiak made a motion to accept and approve the FY 2019 Original Annual Budget as presented; second by D. Salzwedel. Carried; 3-0.

Financial Statement: S. Jaramillo provided a highlight of the financial statements for April 2018. The Lottery returned more than \$3,027,000 for the month to the Legislative Lottery Scholarship program. We have transferred nearly \$34.2 million to the scholarship fund in April 2018. We have met the statutorily required 30% return. For your information: in FY 2018 we have used \$2,242,700 in unclaimed prize funds to meet the 30% return in 8 of the 10 months of the year. During the last 10 ½ years, we have used unclaimed prizes over 83.08% of the time to meet the 30% return – 108 months out of the 130 months. S. Jaramillo reported that the two times the lottery didn't use the unclaimed prize fund was due to Jackpot runups. Powerball and Mega Millions both have a 50% payout and when we have jackpot runups it brings down the prize expense thereby allowing the lottery to meet its 30% return without using the unclaimed prize fund. The committee asked what are the percentage of payouts for both online and instants. D. Barden reported that we have a blended payout at the end of the year. Some states have a set payout. S. Jaramillo reported that online payouts are less expensive whereas instant tickets you have a higher prize payout, we're paying for shipping, postage and printing costs – more expenses associated with instants. With online games the lottery has no indication how many jackpots you will have in a fiscal year or when they will hit. That is why the lottery sets a conservative budget for its online games

with two jackpots per fiscal year and we hope that there will be jackpots. D. Barden reported that last year, we were up over \$7 million for both Powerball and Mega Millions. S. Jaramillo reported if we didn't have the 30% mandate, our sales can be higher and we wouldn't rely on online games.

M. Koson asked in the split on national games and NM games are they in-line. D. Barden reported yes, we are in-line with other states. D. Barden stated that the only thing we aren't in-line with other states is retailer commissions and prize payout. D. Salzwedel asked if NM pays a higher retailer commission than other states. D. Barden reported yes. NM pays 6% compared to Texas at 5%. D. Barden stated that if we reduced retailer commission by 1% and increased our prize payout, our sales will increase.

J. Kubiak asked whose permission does the lottery need if there was a reduction to the retailer commission. D. Barden reported that it would be the Board's decision to reduce the retailer commission. D. Barden reported that the new COO will be looking into retailer commission and determine if we need to go to a different format.

D. Barden advised that PATP is currently averaging \$4,300 in weekly sales, up 49% from last year.

Due to time restraints, the financial statements will continue at the regular board meeting beginning at noon.

Other: None.

ADJOURNMENT: M. Koson entertained a motion to adjourn the meeting. D. Salzwedel moved to adjourn the meeting; second by J. Kubiak. Carried; 3-0. The meeting adjourned at 11:48 p.m.

 ^{Koson}
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Mark Koson, Committee Chair

Date 8-22-18