

**Finance Audit Committee Meeting
New Mexico Lottery Authority
June 26, 2019**

MINUTES

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 12:00 p.m. and asked for a roll call. Present and constituting a quorum were: Dan Salzwedel, Aubrey McGowen, and Mark Koson.

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

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve proposed agenda as presented. M. Koson made a motion to approve the proposed agenda; second by A. McGowen. Carried; 3-0.

Public Comment: None.

Internal Audit

FY 2020 Internal Audit Plan: M. Boland provided a brief overview of the FY 2020 Internal Audit Plan. M. Boland reported that Internal Audit prepares an Audit Plan every year with input from executive staff and management. The audit plan consists of the process internal audit uses to come up with the plan, the actual plan outlining the areas that will be audited, and the time dedicated to each item and supporting documentation/information for the audit plan. M. Boland reported that this is dynamic plan and can change based on the needs of the Lottery and industry changes. M. Boland reported that several new items have been added to the plan this year. Internal Audit will review audit areas and processes to ensure efficiency and update the plan if necessary.

M. Koson asked whether there is a report at the end of the year summarizing what was completed. M. Boland responded that an annual summary report is provided to the CEO and financial auditors. Internal Audit will provide the summary report to the Finance Audit Committee from this point on.

D. Salzwedel entertained a motion to approve Audit Plan. A. McGowen made a motion to approve the FY2020 Internal Audit Plan as submitted with a recommendation to the Board to approve; second by M. Koson. Carried; 3-0.

19-005 Audit Report – MUSL Minimum Game Security Standards Compliance Audit: M. Boland reported that this item was last reviewed in 2015. This item is a compliance audit to ensure the Lottery is following the required MUSL guidelines. There are five standards that the Lottery must follow, which are outlined on page 2 of the report. M. Boland reported that this is a low-risk compliance item and overall the Lottery is doing a good job following the requirements. There was one observation; the INTRALOT Field Service Representatives (FSR) were not always returning ticket stock within the required 14-day timeframe. Internal Audit made recommendations to enhance processes and the Security Division received those recommendations positively and immediately resolved this item by instituting new monitoring procedures.

D. Salzwedel entertained a motion to approve MUSL Audit Report. M. Koson made a motion to approve the MUSL Minimum Game Security Standards Compliance Audit as submitted with a recommendation to the Board to approve; second by A. McGowen. Carried; 3-0.

FY 2019 Financial Audit Services RFP Award: M. Boland reported that every three years the Lottery goes out to bid for Financial Audit Services. The Lottery issued an RFP on April 1, 2019 to the approved State Auditor vendor list that consisted of seventy firms. Eleven businesses requested the RFP. Bids were due on April 29, 2019. All processes outlined in the RFP were followed during this process. The Lottery received four proposals and one proposal was disqualified for failure to submit a required document. The CEO appointed an evaluation team that selected CliftonLarsonAllen on May 15, 2019. CliftonLarsonAllen was awarded a three-year contract (one year plus two one-year extensions). The State Auditor approved the selection and contract.

D. Salzwedel asked S. Jaramillo about her experience with CliftonLarsonAllen. S. Jaramillo reported that the first year was a learning experience, since it was their first time working with the Lottery. Over the subsequent two years, the Lottery developed a rapport with them. The Lottery has had good audits. S. Jaramillo stated by selecting CliftonLarsonAllen, the Lottery is bringing back a firm with experience.

D. Salzwedel entertained a motion to approve the Financial Audit Services RFP Award. A. McGowen made a motion to approve the FY 2019 Financial Audit Services RFP Award to CliftonLarsonAllen with a recommendation to the Board to approve; second by M. Koson. Carried; 3-0.

Financial Statements: S. Jaramillo gave an update on the May 2019 financial statements. S. Jaramillo reported with our transfer for May, we have transferred nearly \$40 million to the scholarship fund. The Lottery has used \$4.095 million in unclaimed prize funds to meet the 30% return in ten of the eleven months of the year. During the last eleven years, eleven months, we have used unclaimed prizes nearly 84% of the time.

Year-to-date Total Operating Revenues were nearly \$133.2 million, which were nearly \$5 million or 3.89% more than the FY 19 YTD Revised Budget. This is also \$9.26 million or 7.4% more than the YTD Total Operating Revenues as of last May.

YTD Total Game Expenses ended at 103.18% of the YTD Budget, while Total Operating Revenues ended at 103.89% of Budget, tracking close to each other. Actual Game Expenses were 66.7% of Gross Revenues. Total Operating Expenses ended at 3.29% of Gross Revenues. Expenses are being held as much as possible and are less than budgeted amounts.

FY 2020 Consolidated Original Annual Budget: S. Jaramillo provided an overview of the FY 2020 Consolidated Original Annual Budget along with a summary sheet showing the changes from the FY 2019 Original Annual Budget.

The major changes in sales projections are:

- Instant ticket sales increased by \$4 million or 5.33%
- Powerball sales decreased due to jackpot fatigue by \$500,000 or 1.75%
- Mega Millions sales increased by \$1.5 million or 14.29%
- Roadrunner Cash sales increased by \$500,000 or 7.14%
- Lotto America sales decreased by \$100,000 or 2.50%
- Pick 3 sales increased by \$700,000 or 15.56%
- Pick 4 sales increased by \$500,000 or 27.78% (New Game 2019)
- Lucky Numbers Bingo ended in FY 2019
- Fast Play sales increased by \$60,000 or 8.11%
- Net ticket sales increased by \$7.27 million or 5.61%

D. Salzwedel inquired about the sports lottery game. D. Barden reported that the Lottery is waiting for guidance from the Governor's office due to the potential impact on the tribal compacts. In addition, the

Lottery is following related litigation. The New Hampshire Lottery sued the Department of Justice over the opinion that may have prohibited lotteries from engaging in iLottery and sports gaming. The Lottery's vendor INTRALOT also has many other ongoing projects. Once the decision is made to proceed, it will take approximately six months to launch a sports lottery game.

S. Jaramillo reported Game Expense line items were increased due to the changes in sales, but remained at 66.81% for the two years, this year and last year. Advertising was decreased by \$250,000 or 10.64%.

Operating Expenses stayed the same at 3.18% of Gross Revenues in the Original Budgets for both fiscal years. The biggest change to Operating Expenses is in Salaries, Wages and Benefits, which increased from 2.27% of Gross Revenues to 2.29% of Gross Revenues from FY 2019 to FY 2020. S. Jaramillo reported that Insurance through the State will see an increase of 5% across the board beginning in July. This budget includes four new positions, three of which are the same positions from last year that the CEO decided not to fill. Also included is a small increase for employees based on performance evaluations.

This FY 2020 Consolidated Original Annual Budget will return an additional \$1,845,000 or 4.75% more to the Legislative Lottery Scholarship Fund compared to the FY 2019 Original Annual Budget.

S. Jaramillo requested approval from the Committee and recommendation for approval from the Board of the FY 2020 Consolidated Original Annual Budget.

M. Koson asked how the use of unclaimed prizes is shown in the budget sheets. S. Jaramillo responded that unclaimed prizes are collapsed into the Prize Expense line item. Without that \$4 million, Prize Expense would be bigger. On one of the financial statements (page 7) the Lottery breaks out unclaimed prizes.

D. Barden reported that as directed by the Board, the Lottery has deferred funds to build a cash reserve.

M. Koson inquired about the process for reconciling free tickets. D. Barden reported that the calculation for the 30% return requirement is made only on actual sales of tickets and not on free tickets. Free tickets are backed out of revenue. M. Koson asked whether free tickets should be backed out and shown as a negative and not zero. For example, if we give away one lottery ticket, it's a negative one, not a zero. D. Barden responded that free tickets are subtracted out of revenue to net zero. M. Koson stated that if we give away a free ticket, it should not be subtracted from net sales. If we sold \$1,000 in tickets and we give away \$1, we sold \$999 in tickets. S. Jaramillo stated that financial statements are showing free tickets broken out because a previous Board wanted to see the amount of free tickets being awarded. Therefore, it is broken out as a separate line item for transparency. In the financial audit, the net revenue is shown all together.


D. Salzwedel entertained a motion to approve the FY 2020 Original Annual Budget. M. Koson made a motion to recommend the FY 2020 Consolidated Original Annual Budget to the Board for approval; second by A. McGowen. Carried; 3-0.

Disposal of Obsolete, Worn Out, or Unusable Tangible Personal Property: S. Jaramillo requested the Committee's approval to dispose of capital and non-capital assets listed in the memo provided to the Committee members. S. Jaramillo reported that the list of capital items will go to the State Auditor as required by statute and the non-capital items will be presented to the State Surplus Property Bureau for the first right of refusal outlined in the Lottery's Capital Asset Management Policy. If the Lottery does not hear from the Surplus Bureau, the property will be destroyed or otherwise permanently disposed of in accordance with applicable laws.

D. Salzwedel entertained a motion to approve the Disposal of Obsolete, Worn Out or Unusable Tangible Personal Property. A. McGowen made a motion to approve the Disposal of Obsolete, Worn Out, or Unusable Tangible Personal Property as presented; second by M. Koson. Carried; 3-0.

Other: None.

Adjournment: D. Salzwedel entertained a motion to adjourn. M. Koson moved to adjourn the meeting; second by A. McGowen. Carried; 3-0. The meeting adjourned at 12:58 p.m.



Dan Salzwedel, Acting Chairman
Date: 8/23/19