

**Finance and Audit Committee Meeting
New Mexico Lottery Authority
August 11, 2021**

MINUTES

Call to Order: Committee Chair Paul Guerin called the meeting to order at 10:03 a.m. and asked for a roll call. Present and constituting a quorum were: Othiamba Umi, Paul Guerin, and Leo Romero.

Present from NMLA were David Barden, Carolyn Cabell, Wilma Atencio, Michael Boland, Sylvia Jaramillo, Darren Geffre, and Therle Smith. Also attending in person and virtually were Kevin Duda, Matt Bone and Elizabeth Nunez with CliftonLarsonAllen, LLC, and Lori Baca.

Approve Proposed Agenda: P. Guerin entertained a motion. L. Romero made a motion to approve the proposed agenda; second by O. Umi. All ayes, no nays. Carried; 3-0.

Public Comment: None.

REPORTS:

FY 2021 Financial Audit Entrance: D. Barden introduced Matt Bone, Engagement Principal with CliftonLarsonAllen, LLC (CLA), and advised that this is the final year of the contract with CLA. M. Bone reported that the State Auditor's office changed the rule that allows the maximum number of years with an audit firm from six years to eight years, which could allow for another two years with CLA.

M. Bone provided an overview of CLA's responsibilities and introduced the engagement team, consisting of himself; Elizabeth Nunez, Audit Engagement Manager; Sheila Quintana, Audit Engagement Senior; and other support staff members such as an IT auditor and quality control team who will review the audit documentation. M. Bone outlined the process that will be followed throughout the audit including the audit scope and required communications, audit plan overview, and timeline.

M. Bone reported that CLA's responsibilities include forming and expressing opinions about the financial statements and whether they are fairly presented in all material aspects, in conformity with generally accepted accounting principles, including determining whether internal controls over financial reporting are in place and being followed in accordance with policies and procedures. M. Bone advised that the audit of the financial statements does not relieve the Lottery's governance or management of their responsibilities. CLA conducts a risk-based approach, which changes year to year with input from management and governance and will be evaluated and compared to the previous year's financial audit.

M. Bone stated that field work and sample testing will be ongoing throughout the audit. The process began in July and will continue over the next two-week period. The reporting and financial review will occur during the months of September and October with a planned submission to the Office of the State Auditor by October 15, 2021. The Lottery will schedule a closed exit conference with CLA and the Finance Audit Committee in October.

L. Romero asked about the difference between governance and management. M. Bone responded that in the case of the Lottery, governance is the Board and management is the Lottery, who is in charge of day-to-day operations in all areas being audited.

O. Umi asked if there is anything different or unique in terms of the audit process for the Lottery compared to other institutions or businesses. M. Bone responded that there are. CLA tests that the Lottery is in compliance with the Lottery Act, which is unique to the Lottery. M. Bone reported that all government

entities have their own uniqueness and CLA conducts their audit process based on the laws and regulations applicable to those organizations. M. Bone reported that CLA does not place an opinion that the Lottery complies with all aspects of the Lottery Act; however, CLA does apply various tests and procedures and if they find an exception, then that is reported as a finding. The operations of the Lottery are very different from any other government entity in New Mexico.

D. Barden thanked M. Bone for his presentation and advised the members that any findings are reported to the Committee and Board for review and discussion. M. Bone and E. Nunez left the meeting at 10:25 am.

Financial Statements: S. Jaramillo provided a memorandum with highlights from the June 2021 financial statements. \$3.4 million was transferred to the Lottery Tuition Fund, making the total fiscal year transfers of \$46.5 million a record and the highest transfers since 2016, when the Lottery returned \$46.3 million. The Lottery has transferred \$906.7 million to education since 1996.

D. Barden provided a history of Powerball sales chart that will be discussed at the Board meeting. D. Barden advised that Powerball sales for FY20 were an all-time low. Sales for FY21 have increased over last year. A new Monday drawing will be added soon, which may lead to an additional 8% increase in sales.

FY 2022 Audit Plan: M. Boland provided an overview of the audit planning process. M. Boland reported the Internal Audit Plan is presented annually to Lottery management, Committee members, and the Board for review, discussion, and acceptance.

M. Boland reported that pages 1-3 indicate the overall internal audit plan and how the plan is developed and prepared, such as discussions with employees and Lottery management, review of prior audit reports, and review of vendor reports (ex. MUSL, INTRALOT, INTRALOT penetration tests). M. Boland reported that the plan consists of 53 audit areas. Each area is reviewed by the respective department for updates or changes. These areas are then weighted (pages 5-9) with a priority and the audit plan is prioritized and created. M. Boland advised that the Lottery uses the phrases “low priority,” “moderate priority,” and “high priority” for risk factors. M. Boland advised that the audit plan is different each year and some specific areas may change. The audit plan is an evolving plan and is amenable to changes not only from Lottery management, but also from the Board who may request areas be reviewed at any time.

O. Umi asked how management uses the audit information and how often the Lottery makes changes based on the audits or findings. D. Barden responded that Internal Audit is a great resource for the Lottery by providing feedback on streamlining and efficiency, not only on audited areas but also on non-audited areas. Most recommended changes are implemented as quickly as possible. D. Barden also reported that the Lottery had been working on automating its process, but COVID-19 pushed operations into automation mode immediately with great success. In addition, the Internal Auditor’s interaction with the external auditors has been valuable.

M. Boland reported that one of his duties is to facilitate CLA’s processes and ensure they have access to everything they need while conducting their financial audit. CLA’s primary focus is ensuring that the financial statements are fairly stated. Their mission is to focus on the financial aspect of operations. Internal Audit looks at everything across the board to reduce steps and increase efficiency, effectiveness, and continuity in all areas.

L. Romero asked which of the two, external or internal auditors, would detect fraud in a business. M. Boland responded that statistically, the auditors are not usually the first to find or detect fraud in a business. Fraud usually comes out by other means, such as a whistleblower, employees, former employees, etc.

M. Boland stated that the Lottery in his opinion has the best controls of any state organization. The Lottery has controls in place and understands the position it holds within the community to be above reproach in


all aspects. M. Boland reported that D. Barden thoroughly reviewed operations over the years and requested that Internal Audit review certain processes. These efforts encapsulated many changes, efficiencies, and effectiveness that have led to reduced costs.

O. Umi asked why the FY 2022 Audit Plan makes reference to June 30, 2020, when we are in FY21. M. Boland responded that the final numbers will not be available until October when the financial audit has been reviewed and completed by CLA and State Auditor's office, while the Internal Audit plan takes effect at the beginning of the fiscal year (July 2021).

P. Guerin advised that if there were any findings with the financial audit that would impact the internal audit plan, the plan would be updated accordingly.

Other Items: None.

Adjournment: P. Guerin entertained a motion to adjourn. O. Umi made a motion to adjourn the meeting; second by L. Romero. All ayes, no nays. Carried; 3-0. The meeting adjourned at 11:05 a.m.



P. Guerin, Committee Chair
Date: 12/15/21