

Finance and Audit Committee Meeting
New Mexico Lottery Authority
March 23, 2022

MINUTES

Call to Order: Committee Chair Paul Guerin called the meeting to order at 11:00 a.m. and asked for a roll call. Present and constituting a quorum were: Paul Guerin, Leo Romero, and Othiamba Umi.

Present from NMLA were David Barden, Carolyn Cabell, Sylvia Jaramillo, Wilma Atencio, Darren Geffre, Therle Smith, and Michael Boland (virtually). Both D. Geffre and T. Smith left meeting at 11:03 a.m.

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:

D. Barden reported that the Internal Auditor conducts audits according to the annual audit plan and areas that management may recommend. Two Internal Audit reports were provided for the Committee and M. Boland.

Finance Processes: Claims Engagement Audit Report: M. Boland reported that Internal Audit reviewed the Claims Center in the Finance Division for operations, processes, and procedures to identify way to enhance the effectiveness and efficiency of operations, where applicable. The Claims Center's primary purpose is to sell and redeem lottery tickets, similar to a standard lottery retailer. Approximately ninety-five percent of the Claims Center's time is spent in the lottery retailer role.

M. Boland reported that Claims Center procedures were assessed, and Internal Audit offered recommendations to improve the processes. M. Boland reported there were no findings, only recommendations. Some of these recommendations are not control issues, but rather efficiency issues and it is up to management on implementing or not implementing these recommendations.

P. Guerin asked what happens when the Claims Center staff is reduced to one employee. D. Barden responded that it is backfilled with another member from the Finance Division. S. Jaramillo reported that both Claims Center employees are cross trained. The Finance Division consist of five staff members and two Claims Center personnel.

P. Guerin asked if any of the recommendations are more pertinent than others. M. Boland reported that the recommendations are listed in priority from highest to lowest. D. Barden reported that management will review these recommendations with the Finance Division to determine which recommendations should be implemented. Management will report back to the Committee.

GP Accounting Software Access Engagement Phase 1 Audit Report: M. Boland reported that Internal Audit performed a preliminary assessment of segregation of duties within the Microsoft Dynamics GP accounting software. The engagement was split into two parts. The report provided was for Phase 1 only. Based on Internal Audit's initial assessment of potential incompatible duties, the Lottery obtained the services of a GP accounting specialist firm to perform a high-level analysis of Lottery employees' GP access using analyzer software. The firm's analysis identified incompatible duties assigned and users with improper segregation of duties. Without detailed knowledge of employees' specific job functions or possible mitigating controls in place, the vendor was unable to determine whether the analysis results pose

significant risks to financial controls. A more detailed analysis is being conducted for Phase 2 of this engagement, the results of which will be reported to management and the Committee at a future date.

P. Guerin asked how many total duties there are and whether the number of incompatible duties identified is a lot. M. Boland responded that is a significant enough amount to warrant a further review of these duties. D. Barden reported that the additional review is being done to inform management whether incompatible duties are problematic. P. Guerin commented it would be good to know what an incompatible duty is. D. Barden provided an example in which an employee would create something in the system and then authorize that process in a later step. M. Boland reported that you want segregation of duties to minimize errors or fraud.

FY 2022 Financial Audit Services RFP: M. Boland reported that the Lottery is required per the State Audit rule to go out to RFP and select a new vendor for its audit services. We have received our notification from the Office of the State Auditor to proceed with the RFP process. The RFP is currently under review by management and will be issued on April 1. The evaluation process is tentatively scheduled for April 29 through May 16. Internal Audit is looking for two Board members to volunteer their time and be part of the RFP evaluation committee. The evaluation committee will spend a number of hours reviewing and scoring proposals on their own and collectively with other members to select a successful vendor. P. Guerin volunteered to be on the evaluation committee.

Staff Adjustments: D. Barden reported that after discussion with the Board Chair, as CEO he authorized a cost-of-living increase for staff. Employees have not had an increase in 2.5 years. D. Barden reported that thirty employees received a cost-of living adjustments and three employees received other adjustments. The adjustments resulted in a 3.84% increase to the salary and wages line item. The dollar amount of the cost-of-living increase was greater for employees with salaries below \$60,000. The cost-of-living increase took affect two weeks ago.

D. Barden reported that an outside HR Consultant was contacted and advised that Lottery salary ranges were not competitive with the market. Salary ranges were updated, including that the minimum salary for any range is at least the equivalent of \$15 per hour. D. Barden reported that he has a contract and did not receive any compensation increase. His contract renewal is in 2.5 years.

Financial Statements: D. Barden requested that this item be discussed at the full Board of Directors meeting to allow for detailed discussion of the next item, the 2022 revised budget. P. Guerin approved.

FY 2022 Consolidated Revised Annual Budget: S. Jaramillo reported that the revised budget revenue was determined by management consisting of the CEO, COO, and directors from the Gaming Products, Sales, and Finance Divisions. The Board was provided a copy of the draft FY2022 Consolidated Revised Annual Budget with a recap sheet of the budget showing the changes. S. Jaramillo read the summary of revisions.

P. Guerin entertained a motion. L. Romero made a motion to that the Finance and Audit Committee make a recommendation to the full Board for approval of the FY 2022 Consolidated Revised Annual Budget; second by O. Umi. All ayes, no nays. Carried; 3-0.

Other Items: None.

Adjournment: P. Guerin made a motion to adjourn the meeting; second by L. Romero. All ayes, no nays. Carried; 3-0. The meeting adjourned at 11:50 a.m.

Paul Guerin

P. Guerin, Committee Chair

Date: 05/20/2022