

**Finance and Audit Committee Meeting  
New Mexico Lottery Authority  
August 17, 2022**

**MINUTES**

**Call to Order:** Committee Chair Paul Guerin called the meeting to order at 11:02 a.m. and asked for a roll call. Present and constituting a quorum were Leo Romero and Paul Guerin. Othiamba Umi absent.

**Introductions:** Present from NMLA were David Barden, Carolyn Cabell, Sylvia Jaramillo, Michael Boland, and Wilma Atencio. Also attending in person and virtually were Corrine Zajac-Clarkson, Jon Heath, Eric Spurlin, and David Mills with Carr, Riggs & Ingram, LLC (CRI).

**Approve Proposed Agenda:** P. Guerin entertained a motion. L. Romero made a motion to approve the proposed agenda; second by P. Guerin. All ayes, no nays. Carried; 2-0.

**Public Comment:** None.

**REPORTS:**

**Financial Audit Entrance:** M. Boland introduced C. Zajac-Clarkson, who provided an overview of the new audit firm CRI and the financial audit for fiscal year 2022.

C. Zajac-Clarkson advised that she has previous financial audit experience with the Lottery at her prior firm many years ago. E. Spurlin, Senior Manager, will be the primary contact of day-to-day operations. J. Heath, Partner and Director of Professional Services, will assess IT applications and systems impacting financial data. D. Mills, Partner and Director of IT Audit & Assurance, will oversee the IT general control testing.

C. Zajac-Clarkson outlined the process that will be followed throughout the audit including the scope of work, audit plan overview, auditor responsibilities, management's responsibilities, and timeline of the audit. CRI's responsibilities include compliance with the New Mexico State Audit Rule and the Lottery Act. CRI will be charged with forming and expressing opinions whether the financial statements are fairly presented in all aspects and 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. CRI will focus on IT applications and systems impacting financial data and will conduct interviews, walkthroughs, and observations to understand and perform tests during the audit and gain evidence over the operating effectiveness of internal controls.

The scheduled fieldwork and sample testing will begin the week of September 5, 2022, for a two-week period. The exit conference is tentatively planned for the week of October 3, 2022, with a planned submission of the audit report to the State Auditor by October 17, 2022.

L. Romero asked for explanations of two concepts mentioned by CRI: GASB 87 and changes to GAAS. C. Zajac-Clarkson responded that GASB 87 is a new lease standard. All leases will now be included on the balance sheets to accurately portray lease obligations. The Lottery already implemented this standard in FY 2021. C. Zajac-Clarkson reported that new reporting standards in Generally Accepted Auditing Standards (GAAS) are intended to make it easier for users of financial statements to understand the report, including the auditor and managements responsibilities. The risk factors are identified and included in the engagement letter for acknowledgement, while providing transparency.

L. Romero inquired about the entrance and exit conference. C. Zajac-Clarkson reported that the entrance and exit conference are required communication per the State Audit Rule governed by the State Auditor's

Office. All accounting firms are required to partake. The reporting is conducted with a subset of the Board, in this case the Finance and Audit Committee. All discussion and documents relating to the financial statements remain confidential until released by the State Auditor's Office.

P. Guerin asked for an explanation of application controls. E. Spurlin and D. Mills responded that General Controls provide a purview of the IT systems and Application Controls provide controls specific to that application, in this case it would be the financial data. Applications are built into a system and process data from beginning to end.

**FY 2023 Audit Plan:** M. Boland provided an overview of the audit planning process. M. Boland reported the Internal Audit Plan is a comprehensive plan 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. The audit plan is on page 4. Page 4 highlights the Audit Area, priority level, the audit/activity and estimated time allotted for each audit area. M. Boland reported that the plan consists of 53 audit areas. The audit plan is an evolving plan and is open to changes not only from Lottery management, but also from the Board.

L. Romero asked when there will be a final report on the audit plan. M. Boland responded that Internal Audit will provide reports to the Committee and Board as the audit and process is completed. M. Boland reported that he will have two reports ready for review and discussion at the next Committee meeting.

L. Romero made a motion to approve the FY 2023 Audit Plan as presented: second by P. Guerin. All ayes, no nays. Carried; 2-0.

**Contingency Reserve:** D. Barden reported that the Board Chair requested the contingency reserve topic be brought to the Finance and Audit Committee for discussion and any recommendations for the full Board.

D. Barden reported that Section 6-24-4 (C) of the Lottery Act allows the Lottery to have a contingency reserve fund in place. However, there are no directions outlining if there should be a set amount and how it will be administered. In 2012, the Lottery created a resolution for this fund and was updated in 2014. The 2012 resolution required the Lottery to transfer funds at the end of the fiscal year, which could have prevented the Lottery from using it for its intended purposes of having cash on hand, should the Lottery have needed it.

Discussion occurred between the Committee members and Lottery management, including unrestricted amounts for the past two fiscal years, examples of expenditures (payroll account, payable account, prize account, and operating account), expenditure needs from one month to twelve months, net position history, and the unclaimed prize fund. D. Barden reported that the Government Finance Officers Association (GFOA) recommends a minimum unrestricted fund balance of two months of operating revenues/expenditures on hand.

D. Barden reported that the reserve fund has been used once in the past to meet the 30% mandate return to the State. There is a need for this fund, but any minimum or maximum amount is up to the Board. The Lottery is planning to increase prize payout 3-4% in the upcoming year.

L. Romero asked what Lottery management thought is an appropriate amount to establish for its contingency reserve fund. D. Barden responded he would be comfortable with \$3-\$4 million unrestricted net position and having a strong unclaimed prize fund balance. The contingency reserve would be discussed next at the full Board meeting.

**Other Items:** None.

**Adjournment:** P. Guerin entertained a motion to adjourn. L. Romero made a motion to adjourn; second by P. Guerin. All ayes, no nays. Carried; 2-0. The meeting adjourned at 11:54 a.m.

Paul Guerin

P. Guerin, Committee Chair

Date: 12/7/22