

**Finance and Audit Committee Meeting  
New Mexico Lottery Authority  
March 22, 2023**

**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.

**Introductions:** NMLA staff present were David Barden, Michael Boland, and Wilma Atencio.

**Approval of Proposed Agenda:** L. Romero made a motion to approve the proposed agenda; P. Guerin seconded the motion. Motion carried 2-0.

**Public Comment:** None.

Othiamba Umi joined the meeting via telephone at 11:07 a.m.

**REPORTS:**

**Internal Audit Reports – MUSL Minimum Game Security Standards Compliance Audit:** M. Boland reported that as a member of the Multi-State Lottery Association (MUSL), the Lottery is subject to confidential MUSL Minimum Game Security Standards. There are five areas: Audit of Ticket Cashing, Return of Ticket Stock, Ticket Validation, Counterfeiting, and Ticketless Transactions. Auditing NMLA procedures to ensure NMLA is following MUSL Standards is a high-risk audit area due to the nature of validating winning tickets and the accounting of ticket stock. Based on the testing performed, no findings were found, so the Lottery is in compliance. Two recommendations were suggested by M. Boland to enhance current controls and/or business practices.

L. Romero inquired regarding the two recommendations and M. Boland responded that he (Internal Audit) made the recommendations. One recommendation is related to tracking ticket stock and the second recommendation is related to monitoring prizes for claim status. M. Boland reported that the recommendations have been adopted by Security.

**Internal Audit Reports – Dynamics GP Accounting Software Access Engagement Phase 2 Audit:** M. Boland reported that this accounting software access engagement initially began in October 2021 with Forvis, an Independent Consulting Firm with expertise relating to Great Plains accounting software being used by the NMLA Finance Department. Phase 1, which concluded, based on testing and high-level analysis, that some Lottery employees have incompatible duties assigned that need to be remediated or mitigated so that control objectives can be achieved, and the security and integrity of the accounting software maintained.

This current report captures the work performed subsequent to Phase 1 up to the point of implementation and considered as Phase 2. M. Boland reported that Internal Audit has continued to collaborate with Forvis, the finance division, and senior management throughout this process. Forvis and the Lottery have spent a significant amount of time addressing the access and security role structure of Dynamics GP at a detailed level. The Finance division communicated what their job functions entailed and Forvis has taken this information into consideration when setting up a sound access and security role structure based on their long history and experience working with Dynamics GP applications and their technical knowledge of segregation of duties and best practices. The implementation phase of this project is currently postponed due to administrative change in the finance division and will occur at a future date.

L. Romero asked if there are any recommendations to which M. Boland responded yes. Forvis provided a lengthy report, which is not included in the report being considered by the Committee but will be implemented in Phase 3. M. Boland reported that the recommendations were provided in a test environment, and Finance has worked through these recommendations/changes.

M. Boland reported that this report is for informational purposes to provide an update on this audit status. M. Boland reported the Lottery has strong controls in place and there is no concern by internal audit and management. This is another step towards automation and preventive controls. D. Barden reiterated that it is important to have segregation of duties, especially in the finance department. No company wants an employee to have full access to a financial system where the employee could create an account and pay an account.

L. Romero asked about the status of replacing the Director of Finance position. D. Barden reported that the lottery has hired an individual in the last few weeks, and that employee is still in the learning process. D. Barden also reported that the Deputy Director of Finance will be moving to a new department relatively soon. D. Barden stated the recent personnel changes in the Finance Department have led to staffing issues and a loss in operational knowledge since the staff was not sufficiently trained. D. Barden stated that obtaining competent new hires is costly and difficult.

No further questions.

**FY 2023 Financial Audit Contract Extension:** M. Boland reported that the Lottery received the annual notification from the Office of the State Auditor that the Lottery may select an Independent Public Accountant (IPA) to conduct the financial audit. M. Boland reported that the Lottery plans to bid for its Financial Audit Services, as the current IPA, Carr Riggs Ingram, LLC (CRI) has chosen not to accept an extension due to staffing issues at their firm. The Lottery was recently notified of CRI's not accepting the extension. M. Boland stated that the Lottery may request bids for the financial audit services, rather than issuing an RFP, as the cost of the audit is below State and Lottery procurement levels, and the State Audit Rule allows for this bidding process. M. Boland also reported that a new audit rule was implemented, changing the date of having a signed contract with an IPA firm from June 1 to May 15.

P. Guerin asked when the current contract expires. D. Barden responded that it is a year-to-year contract, and that CRI has not provided any services to the Lottery since the end of their audit cycle and report to the Board in December.

L. Romero asked if this is the same audit firm that recently completed the financial audit. D. Barden responded that it is. P. Guerin reiterated that the Lottery selected CRI through an RFP process last year, but now that firm has declined to continue for its second year. M. Boland and D. Barden concurred. M. Boland reported that the partner who had lottery experience is leaving CRI.

P. Guerin asked if the Lottery wants to request bids for the services, rather than issuing a full RFP to shorten the process with the caveat that all state guidelines, policies, and cost factors allow this to happen. D. Barden responded in the affirmative, if it is deemed to be the most effective way to proceed. L. Romero reiterated that this is not a contract extension.

P. Guerin made a motion to recommend to the full Board that the Lottery proceed with the procuring a new Financial Services firm; L. Romero seconded the motion. Motion carried 3-0.

**FY 2023 Consolidated Revised Annual Budget:** D. Barden provided an overview of the Consolidated Revised Annual Budget. D. Barden introduced Jay Siegel, Director of Finance, to the Committee.

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D. Barden reported that the Lottery will return a total of \$49.5 million to the Lottery Tuition Fund this year, which will be the best transfer year to date. YTD instant sales are 10.3% or \$4.7 million more than FY22 YTD. All draw game sales are ahead of FY22 YTD, except for Roadrunner Cash. There were three major jackpots.

D. Barden reported that revenue increases projected in the revised FY23 budget resulted in minimal changes to other line categories. There are two major capital item updates in the revised budget: a fleet vehicle purchase and employee bathroom renovations. Prize expense; retailer commission; online vendor fees; ticket vendor fees; shipping; salaries, wages, and benefits; utilities and maintenance; and professional fees are areas that are increasing in the revised FY23 budget.

Operating Revenue increased by 20.95% or \$28.55 million.  
Game Expenses increased by 21.91% or \$19.85 million.  
Operating Expenses increased by 3.0% or \$145 thousand.


D. Barden reported that based on a five-year period from 2018, 95% of revenue generated from Lottery sales remained in the state.

Committee members discussed the revised budget modifications and the need for a revised budget. The Committee consensus was to add this as a topic at a future meeting. P. Guerin commented that the outlook for the revised budget and financials are positive.

P. Guerin made a motion to recommend to the full Board that the FY 2023 Consolidated Revised Budget be approved; O. Umi seconded the motion. Motion carried 2-0, with L. Romero abstaining.

**Other Items:** None.

**Adjournment:** P. Guerin made a motion to adjourn the meeting; L. Romero seconded the motion. Motion carried 3-0. The meeting adjourned at 11:39 a.m.

  
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P. Guerin, Committee Chair  
Date: 6/22/23