

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
December 13, 2023**

MINUTES

Call to Order: Board Chair Reta Jones called the meeting to order at 11:02 a.m. and asked for a roll call. Present and constituting a quorum were David Keylon, Nina Thayer, Reta Jones, Leo Romero, Paul Guerin, and Sal Baragiola. Othiamba Umi absent.

Introductions: Present from NMLA staff were David Barden, Carolyn Cabell, Wilma Atencio, Michael Boland, and Jay Siegel. Also attending were Mary Stanford and Steve Beck with INTRALOT, and Sheila Herrera with Moss Adams.

Approval of Proposed Agenda: No changes or corrections were made. R. Jones entertained a motion. N. Thayer moved to approve the proposed agenda as presented; L. Romero seconded the motion. Motion carried 6-0.

Approval of Minutes of September 20, 2023, Board of Directors Meeting: N. Thayer requested a correction to page one, last line, first letter should be a “B” for billion and not million. No further corrections. R. Jones entertained a motion. D. Keylon moved to accept and approve the September 20, 2023, meeting minutes as corrected; N. Thayer seconded the motion. Motion carried 6-0. Changes were made at the end of the meeting and signed.

Public Comment: None.

REPORTS:

Finance and Audit Committee:

October 25, 2023, Committee Meeting Minutes: P. Guerin reported that the Finance and Audit Committee meeting minutes from October 25, 2023, accurately reflect what occurred at that meeting.

FY 2023 Financial Audit Report: S. Herrera provided an overview of the FY 2023 Financial Audit Report for the period ending June 30, 2023. This report was reviewed with the Finance and Audit Committee in October at the exit conference. The report was submitted to and released by the State Auditors’ Office.

S. Herrera reported that Moss Adams issued an unmodified (clean) opinion. The financial statements were presented fairly in accordance with the generally accepted accounting principles. S. Herrera noted there was one other matter finding that did not rise to the level of a significant deficiency or material weakness; the details and management’s response is included in the report.

M. Boland asked for clarification on the Statement of Net Position being reported as an opinion. S. Herrera stated that Moss Adams reported it as an opinion, due to it being reflected as business type activity. R. Jones asked for clarification that there is only one opinion letter. S. Herrera responded that there are several opinions included in the report; however, only one opinion is official and presented as an unmodified (clean) opinion. L. Romero asked whether the other opinions are required by the State. S. Herrera responded that the Lottery follows government accounting standards, which is the opinion that the current presentation is based on.

L. Romero inquired about the response to the other matter finding. S. Herrera stated adequate documentation is required to ensure that the activity is being completed. D. Barden reported that

12/29/2023

management had several discussions with Moss Adams on what classifies as adequate documentation. The Lottery felt that it had adequate documentation, but it did not meet the auditors' standards. The Lottery implemented a process that will include a checklist to meet the auditor's standards. S. Baragiola recommended that the Lottery report back to the Security and Operations Committee as changes are implemented. R. Jones stated this should be reported to both Committees.

D. Barden stated that the Lottery had a good audit process, even with personnel changes in the Finance Division. R. Jones stated that she and the Board appreciate everyone's efforts. The Board thanked Lottery management, staff, and the external auditors for their hard work. S. Herrera concurred with R. Jones' statement and thanked Lottery management and team members. S. Herrera stated that both sides worked well together and having a manager who had previous Lottery experience from Moss Adams helped tremendously.

R. Jones entertained a motion. L. Romero made a motion to accept the FY 2023 Financial Audit Report as presented; P. Guerin seconded the motion. Carried 6-0.

Audit Policy: P. Guerin reported that Committee was presented with the Internal Audit Policy which would replace the current Audit Charter. P. Guerin reported that this new policy would reflect actual processes and be condensed due to updating and clarifying language. The Committee requested a summary of the changes between the two documents to review at its next meeting. L. Romero concurred with P. Guerin's overview.

Internal Audit Report – Change Management Review: M. Boland reported that Internal Audit periodically reviews that the Information Technology (IT) Division has sufficiently designed and effective controls in place regarding change management. This is deemed to be a high priority audit area due to the nature and inherent risks of implementing and documenting system changes. The audit scope included the gaming system, software releases, and hardware deployments. Based on the testing performed, it appears the IT Division has sufficiently designed and effective internal controls in place for in-scope processes. Internal Audit offered verbal recommendations to enhance current controls and business practices, which were accepted by the IT Division.

R. Jones commented that the title of the report seems broader than the scope. M. Boland reported that the change management report is in regard to documented policies and procedures and all the changes that flows into those elements; however, this particular report is specific to the IT Division. M. Boland will update the title of the report.

L. Romero requested a summary of the verbal recommendations. M. Boland responded that the verbal recommendations are not at the same level as written recommendations and included more detailed information when documenting work tickets.

Financial Statements: J. Siegel reviewed highlights of the financial statements through October 2023. The Lottery transferred \$4.72 million to the Lottery Tuition Fund for October. FY24 year-to-date (YTD) transfers of \$19.3 million were \$2.5 million more than FY23 YTD and \$5.1 million more than the YTD original budget. The Lottery has transferred \$1.02 billion to education since 1996.

N. Thayer asked J. Siegel to explain why there is a large percentage difference for non-operating revenues. J. Siegel responded that he will get back with N. Thayer.

L. Romero inquired about prize payout percentages. D. Barden responded that the payout percentage is close compared to the prior year. D. Barden reported that the Lottery has been running approximately 54% total payout over the past several years, depending on the money put into Scratchers games, which causes the percentage to deviate.

D. Keylon asked if the total game expenses are at 67% and the return mandate is 30%, then what is the remaining 2%? D. Barden responded that is administrative cost. There was general discussion about the reserve fund and unclaimed prize fund. D. Barden reported that some of the reserve fund could be used towards purchase of equipment in the new contract resulting from the 2024 RFP for the gaming system. D. Barden advised Board to be prepared for overall cost increases associated with that new contract.

Revised Budgets Discussion: P. Guerin reported the need for a Revised Budget has been discussed numerous times at the Committee and Board level. L. Romero reported that the Finance and Audit Committee recommends the Revised Budget no longer be completed because it is unnecessary due to the staff time involved, only to complete the full annual budget a few months later. Lottery management would contact the full Board for adjustments when necessary. P. Guerin reported that the recommendation would be for the full Board take a vote for the Lottery to stop the Revised Budget, since this has been a historic process and would continue without Board action. S. Baragiola agreed.

L. Romero made a motion that the Lottery no longer be required to complete a Revised Budget, and that the Lottery instead present significant changes to the Board as needed; N. Thayer seconded the motion. Carried 6-0.

CEO Update: D. Barden reported that regarding N. Thayer's earlier question to J. Siegel about non-operating revenue, there was an issue with the online vendor's system, resulting in total credits of \$85,000 on vendor invoices (part of the on-line vendor fees line item). This will be reclassified out of non-operating revenue.

D. Barden presented slides including weekly instant sales trends; a comparison of higher instant prize payouts in all neighboring states; a breakdown of "Where the Money Goes" from FY 2023; a description of upcoming promotional activities for the Guy Fieri Flavortown Fortune! instant game; and an estimate for the next Board meeting dates.

D. Barden reported that the Lottery will be issuing an RFP for legal services. Conklin, Woodcock & Ziegler, P. C is our current firm. Services could include lawsuits, human resources opinions, and employee concerns.

D. Barden also reported that the Lottery will be issuing an RFP for gaming solutions, including the gaming system contract that will reach its maximum ten years in 2025. D. Barden advised that the Lottery is anticipating an increase in the rate, based on market conditions and the recent Request for Information (RFI) process where the Lottery invited vendors to provide presentations.

D. Barden reported a new multi-state Fast Play game called Jackpot USA is being developed for a 2024 launch with an anticipated \$20 price point and starting jackpot of \$1 million. MUSL will be establishing the game rules.

D. Barden reported that the Lottery won awards at the 2023 NASPL Conference for Best New Instant Game for the ORO family of Scratchers and TV Campaign under \$25,000 for the ORO stop-motion spot. The Lottery was also a finalist in the Multicultural Advertising and Original Music categories. We are the only Lottery to win Best New Instant Game back-to-back, and we have won three times in a ten-year period.

Board Chair

Other: R. Jones asked if members would agree to move item "Other" before "Board Elections." All members were in agreement. R. Jones congratulated management, Wendy Ahlm, the marketing team, and staff for an outstanding job with creative campaigns. R. Jones wished staff a Merry Christmas and Happy Holidays.

Board Elections: R. Jones opened an informal process for discussing Board positions. S. Baragiola stated that he has no problem continuing his current position as Vice Chair and Chair of the Security and Operations Committee. D. Keylon, L. Romero, and P. Guerin stated that they are fine in staying with their current committee assignments. D. Keylon stated he recommends the officers stay in their current positions. L. Romero agreed and stated that it's working well, and R. Jones is doing a great job.

R. Jones entertained a motion. D. Keylon made a motion to continue with the current slate of officers: R. Jones, Chair; S. Baragiola, Vice-Chair; and P. Guerin, Secretary/Treasurer; N. Thayer seconded the motion. Carried 6-0.

R. Jones thanked members and appreciated the support. R. Jones stated that since everyone present is happy with their committees, there would be no changes to the committees.

N. Thayer reported she submitted her Board resignation effective January 1, 2024. N. Thayer stated she is very honored, very pleased, and very proud to have served on this Board, particularly due to the \$1 billion announcement of scholarships to students. R. Jones thanked N. Thayer for her service. The Board expressed they were happy to meet and work with N. Thayer and wished her well.

Board Initiatives: R. Jones reported that she met with the Governor's office and key Senate members and has yet to meet with House members about a solution for the return mandate. R. Jones reported that she has neither been discouraged nor encouraged, so she will continue with the meet and greets. R. Jones reported that she and D. Barden are working on modeling on what potential changes would look like. The struggle has been in legislators having a clear view of Lottery operations, so she will continue with having open conversations. R. Jones reported that the upcoming legislative session is a 30-day session. The Lottery and Board will continue working on a document that could potentially be presented, if not this year, then in a later year, if that is still the will of the Board. Any legislation must be presented by a legislator who will carry and sponsor the bill. L. Romero asked if it would be helpful to accompany Lottery personnel in having these conversations. R. Jones responded that it would be helpful.

Other Items: None.

Adjournment: R. Jones entertained a motion. N. Thayer moved to adjourn the meeting; L. Romero seconded the motion. Motion carried 6-0. The meeting adjourned at 12:40 p.m.



R. Jones, Chairman
Date: 3/20/24



P. Guerin, Secretary/Treasurer
Date: 3/20/24