Massachusetts State Lottery Commission
Meeting of the Audit Committee

DATE: April 23, 2013

TIME: 9:30 a.m.

PLACE: Office of the Treasurer and Receiver General
12th floor
One Ashburton Place
Boston, MA

MEMBERS PRESENT: Sue Perez, Chairwoman, Audit Advisory Committee
Martin Benison, Commissioner
Elizabeth Nadzo, Designee for Commissioner Andrea Cabral

ALSO PRESENT:
Tim McMahon, Commissioner
Beth Boland, Commissioner
Paul Sternburg, Executive Director, Lottery
William Egan, General Counsel, Lottery
Jean Caron, Executive Assistant, Lottery
Dave Sweeney, CFO, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy and Special Counsel, Lottery
Elizabeth Pottier, Internal Auditor, Lottery
Jim MacDonald, First Deputy Treasurer
Jamey Tesler, General Counsel, Treasury
Al Gordon, Director of Policy, Treasury

Chairwoman Perez opened the meeting at 9:37 a.m. She asked the Committee to accept the minutes of the February 26, 2012 meeting. Counselor Nadzo made a motion to accept the minutes of the meeting and Commissioner McMahon seconded the motion. The minutes were approved at 9:37 a.m. with a vote of 4-0.

Chairwoman Perez asked for an update on the State Audit. Director Sternburg and members of his staff met with the State Auditors on March 28th and reports that they are very pleased with Elizabeth Pottier, Internal Auditor at the Lottery. Mrs. Pottier was scheduled to be at today's meeting, but due to a serious car accident, traffic is horrific, and she will be late to present her Audit Plan Update for 2013.

Director Sternburg discussed the A & B errors that the auditors questioned during their meeting. He explained that there are two potential errors that Agents can make while cashing Instant Game Tickets. An "A" error occurs when an Agent scans a non-winning Instant Game Ticket and the

terminal asks for a 3 digit code to be entered. If the Agent fails to enter that code, clears the terminal and repeats that scenario, the terminal automatically shuts down. The Agent then loses his or her auto-cashing ability – that is the capacity to cash a low tier prize Instant Game Ticket without entering the three digit code – until the following day. A "B" error occurs when an Agent runs a non-winning Instant Game Ticket ten times through the terminal and each time properly enters the 3 digit code, but the tickets are not winners. This policy with regard to "A" errors has been in effect for many years, but it was interpreted by the former administration as allowing the Agent three attempts on the "A" errors. Director Sternburg's interpretation of the policy is that after the second attempt, the Agent will lose his or her auto-cash functions until the following day.

With regard to a request for the State Auditors to update their engagement letter, Director Sternburg reported that the Auditors feel that the scope has not changed and accordingly, they did not want to provide an updated letter. The Auditors also cannot provide an end date at this time. Director Sternburg feels the auditing process is proceeding professionally and all is going well. Counselor Egan agreed. First Deputy Treasurer MacDonald asked when the Auditors started at the Lottery and Director Sternburg responded, "November 2nd." Director Sternburg said that they are reviewing policies and procedures.

Chairwoman Perez asked for a date or at least a month to expect a draft report. First Deputy Treasurer MacDonald believes that the scope is different than before and agrees with Chairwoman Perez. Commissioner Benison cautioned not to push too hard due to statutory regulations. Counselor Egan suggested that we explain the Lottery has to move on and plan for use of resources now used to assist the audit process.

The Auditors also asked about legislation with regard to the ten percenters. First Deputy Treasurer MacDonald asked about timing and both Director Sternburg and Chairwoman Perez explained that it was a carry-over from before.

Ms. Judd-Stein also noted that there were some questions regarding CORIs and the Key Accounts and consistent application of our regulations. Director Sternburg explained that every four (4) years CORI reviews are conducted for renewed licensees, but Key Accounts have not been included in that. We are in the process of reviewing this policy and procedure to determine whether we should consider revising the regulation, as suggested by the Auditors.

Commissioner Benison said he wasn't concerned about that as there is no allegation of fraud. With respect to the ten percenters, he said there is legislation filed. Counselor Egan said there are always findings. It has been suggested that the employees of the Lottery submit the social security numbers of immediate family members to ensure that they are not playing Lottery games. Director Sternburg stated that he does not think this is a good practice and does not want the Lottery to be in possession of social security numbers of employees' family members.

Miss Pottier stated that there is a big risk of collecting the social security numbers of employees' family members in their immediate household, reiterating the risk associated with having those social security numbers in our files. Chairwoman Perez referred to the letter about the end date. Ms. Pottier said she asked the Auditors about this last week and they said they still cannot give a definitive date at this point. They are still working on understanding the policies and procedures.

There has been no testing as of yet. First Deputy Treasurer MacDonald and Chairwoman Perez both were surprised and asked "no testing"? Director Sternburg explained that it took three (3) weeks for them to understand a final settlement. Ms. Pottier offered examples of a lost or stolen ticket and the ending of a game which aligns with the Policies and Procedures. They should have been comfortable testing those right away, but they did not. Ms. Judd-Stein said that things are in place, but CFO Sweeney said that they have things in place, but do not test them.

Chairwoman Perez suggested we see what they come back with and report at the next meeting. They will know the Committee is actively observing the process. Director Sternburg did add that in their defense the Lottery is a different animal and they are getting along fine.

Ms. Pottier then gave an update to her 2013 Audit Plan. She is currently assessing the ticket return department and a draft report will be completed within a couple of weeks. She also will work on Ad-Hoc Management requests as well as Accounts Payable audit and working with the State Auditors. Director Sternburg noted that going forward Ms. Pottier will be a direct report to him. Ms. Judd-Stein explained that in the organizational chart the Internal Auditor will be a direct report to the Executive Director and on a dash-line to the Audit Advisory Committee (should she have any concerns with regard to the Executive Director). The Internal Auditor's reports will be updated and finalized and shared with the Audit Advisory Committee.

Director Sternburg asked about another meeting and Chairwoman Perez suggested meeting with the State Auditors again and if needed meet again next month.

Chairwoman Perez asked if there were any comments or questions. There were none, so she asked for a motion to adjourn, which was made by Commissioner Benison at 10:03 am and properly seconded. Motion approved 5-0.