Massachusetts State Lottery Commission
Meeting of the Audit Committee

DATE:	**August 27, 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** **Tim McMahon, Commissioner** **Andrea Cabral, Commissioner**
ALSO PRESENT:	**Paul Sternburg, Executive Director, Lottery** **William Egan, General Counsel, Lottery** **Jean Caron, Executive Assistant, Lottery** **David Sweeney, CFO, Lottery** **Cathy Judd-Stein, Assistant Executive Director, Director of Policy and Special Counsel, Lottery** **Elizabeth Pottier, Internal Auditor, Lottery** **Matt DiFranceso, Assistant Director, Operations, Lottery** **James Canavan, Assistant Executive Director, Human Resources, Lottery** **Al Gordon, Director of Policy, Treasury**

Chairwoman Perez opened the meeting at 9:30 a.m. She asked the Committee to accept the minutes of the May 28, 2013 meeting. Commissioner Benison made a motion to accept the minutes of the meeting and Commissioner Cabral seconded the motion. The minutes were approved at 9:31 a.m. with a vote of 3-0. (Commissioner McMahon arrived just after this vote.)

Director Sternburg updated the Committee on the State Audit and informed it that along with Chairwoman Perez and members of the Lottery, he met with the Auditors on August 15th, 2013 at Lottery Headquarters in Braintree. Chairwoman Perez explained that the Audit team now had a new manager, Stephen Concilio. When she inquired as to the status of the Audit he told her that it was 75 – 80% complete in testing and 75 – 85% complete in field work. Chairwoman Perez explained that the Auditors handed out a list of outstanding items and went through them one by one with the group. They were able to outline where they were on the audit, what they needed to accomplish and get answers to some of their outstanding issues. One outstanding issue included completion of an IT questionnaire and assessment. Ms. Pottier explained that on August 22nd, she gave the Auditors a full update. At that time, Mr. DaSilva explained to her that the data reliability assessment - the ISP/ESP audit - is for Executive Offices only. So

the Lottery will not have to complete that assessment. (Chairwoman Perez noted that, in any case, KPMG has started its audit at the Lottery and will be performing IT testing.)

Director Sternburg explained that the Auditors were taking the Lottery's updated policies that have recently been made to better the operations at the Lottery, and have been using them to see what changes have been implemented. Commissioner Benison said they should be using the old policies that were in effect during the time line they are auditing and not jump to new higher standard policies. Director Sternburg said other than that he is comfortable with the audit. He questioned whether they will make the mid-September final date that they had anticipated. Commissioner Cabral suggested that the Lottery keep in constant contact as it is beneficial to try to undo wrong assumptions early on, rather than have them reach an incorrect conclusion which the Lottery would then have to react to and explain. She emphasized that it may be helpful to be able to respond in writing at the right level. Chairwoman Perez agreed, stating that sometimes an assumption can be made that is not totally accurate. Director Sternburg has already inquired about putting responses in the executive section rather than at the end of the report.

Commissioner Benison asked if there were any other items that might be brought up in the report. Director Sternburg explained about the A error and B error system that the Lottery has in place to deter Agents from using the auto cash functions to scan tickets that do not appear to be winners (a prohibited practice referred to as "peeking") and a clarification made through the enactment of a new policy. Chairwoman Perez stated that this was an example of a policy change; they want to call this a new item recommendation.

Chairwoman Perez said that there were a few other findings, but nothing "earth shattering." With regard to the ten-per centers, there are not many and they appear to be the same names. However, the Lottery has filed legislation to address that matter and the auditors are aware of that.

Commissioner Benison asked about the KPMG schedule for the financial and IT audit. CFO Sweeney stated that they are on-site and doing preliminary work. He will schedule a meeting with them to discuss their guidelines before the end of September. He does not anticipate that KPMG will be longer than a few months.

It was agreed that there should be another Audit Advisory Committee meeting in September.

Chairwoman Perez asked if there were any other questions or concerns. There were none, so she asked for a motion to adjourn. Motion was made by Commissioner Cabral and seconded by Commissioner Benison at 9:50. Motion approved 4 – 0.