Massachusetts State Lottery Commission
Meeting of the Audit Advisory Committee

DATE:	**October 30, 2012**
TIME:	**9:30 a.m.**
PLACE:	**Office of the Treasurer and Receiver General** **12th floor** **One Ashburton Place** **Boston, MA**
MEMBERS PRESENT:	**Steven Grossman, Treasurer and Receiver General, Chair** **Martin Benison, Comptroller and Audit Advisory Committee Member** **Jane Gabriel, Acting General Counsel, EOPS, and designee for Secretary Mary Beth Heffernan, Audit Advisory Committee Member**
ALSO PRESENT:	**Beth Boland, Commissioner, Lottery** **Tim McMahon, Commissioner, Lottery** **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** **Jamey Tesler, General Counsel, Treasury** **Al Gordon, Deputy Treasurer of Policy, Treasury**

I. Greetings and Approval of the Minutes:
Treasurer Grossman opened the meeting at 9:33 a.m. He noted that his designee, Susan Perez, Executive Director of the Massachusetts Water Pollution Abatement Trust, was unable to attend due to complications arising from Hurricane Sandy and had assured her that he was available to chair the meeting. He asked the Committee to accept the minutes of the meeting. It was noted that David Sweeney was mistakenly left off the attendance list. With that amendment, Comptroller Benison made a motion to accept the minutes of the meeting and Counselor Jane Gabriel seconded the motion. The minutes were approved unanimously.

II. Presentation by the Internal Auditor:
Treasurer Grossman then introduced the Lottery's Internal Auditor, Elizabeth Pottier, for her presentation of the Internal Audit Plan. He asked Ms. Pottier to give the Committee a brief summary of her background. Ms. Pottier stated that she had been at the Lottery for three years, having previously worked eighteen years in the private sector. She worked at Blue Cross and Tufts, identifying projects and programs and writing audit reports. She prepares for the Lottery an audit plan every calendar year. For calendar year 2012, she completed seven projects that she had identified in her audit plan, leaving three

others that have not yet been started due to the assignment of *ad hoc* projects. The three projects remaining are accounts payable, policies and SR 90's. The accounts payable audit should be completed by the end of the year. This audit has never been done before and Ms. Pottier has encountered many compliance issues, especially with VFW organizations. Ms. Pottier said that she would wait on the policies audit until Ms. Judd-Stein has completed her policy project. Currently, Ms. Pottier is focusing on the SR 90's, these are credits given to the agents. Ms. Pottier also conducts audits every calendar year at the Lottery Regional Offices.

Most recently, Ms. Pottier reviewed the results of the Secret Shopper program which she felt was very effective. She reported that the Lottery had done an excellent job on this program. She said she has had limited time in her review of the Raffle due to the *ad hoc* projects, but she stated that from what she has been able to review there is nothing to report. The IT Database review was not completed due to time spent with IT on other issues. She updates an outline of risk assessment whenever there are any changes.

Treasurer Grossman asked, come the first of the year, who Ms. Pottier will report to with regard to *ad hoc* projects and who helps her to adjudicate what gets done and what gets pushed back. She stated that she reports to Brian Taylor, Director of Compliance and Internal Audit. Treasurer Grossman then asked who Mr. Taylor would report to and Director Sternburg said that he would be the one to whom Mr. Taylor would report. He explained that sometimes it is necessary to go back to the original audit report and reassess what the next project would be, based on risk. Treasurer Grossman asked that the Committee be made aware of which audits had not been completed at the end of the year. Comptroller Benison added that the *ad hocs* are important and he would like to see the end of the year report and review with the Committee in January.

Comptroller Benison then asked Ms. Pottier how she divides her time between auditing agents and auditing in-house projects. Ms. Pottier explained that she only visits the agent locations if there is a problem that the Compliance Department cannot resolve.

Ms. Pottier further explained that one of the key risks at the Lottery is with the partially sold returned books. There is a possibility that there is a high tier winning ticket in a book that is to be destroyed. Director Sternburg said that the return policy on partially sold books has many safeguards to assure that every effort is made to allow a customer to claim a winning ticket before the game is ended. Ms. Pottier agreed with Director Sternburg and stated that a year or a year and a half ago she audited the $5 ticket and there were absolutely no issues. She stated that once the policy and procedures are completed she will review them.

III. Other business:

Treasurer Grossman then asked Mr. Sweeney, CFO at the Lottery, to speak about KPMG's audit. Mr. Sweeney reported that the financial portion had been completed and the management letter will go out in the next few days. He anticipates that KPMG may be prepared to report back to the Committee next month. Mr. Sweeney added that the Lottery will be going out to bid for auditing services after the first of the year. The current RFR is a three-year bid consisting of two one-year extensions, and the Lottery has exercised the first of those extensions.

IV. Next Steps and Adjournment:

Treasurer Grossman scheduled the next Audit Committee meeting for 9:30 a.m. on Tuesday, November 27th prior to the Commission Meeting. Treasurer Grossman asked for any comments or questions. There were none, so he then asked for a motion to adjourn. Comptroller Benison so moved at 9:59 a.m. and his motion was seconded by Counselor Gabriel. Motion approved.