

LEGISLATIVE AUDIT COMMITTEE

MINUTES SUMMARY

April 7, 2011

Please note: These are summary minutes. The minutes are also accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Audit Division homepage at http://www.leg.mt.gov/audit/meeting_info.asp.

*To view the minutes, locate the meeting date and click on **Minutes**. To hear the audio recording, click on the date link at **Listen**. Note: You must have Real Player installed to listen to the audio recording.*

<u>Members Present</u>	Present	Travel Voucher
Sen. Debby Barrett	P	
Sen. Gary Branae	P	
Sen. Taylor Brown	A	
Sen. Edward Buttrey	P	
Sen. Cliff Larsen	P	
Sen. Mitch Tropila	P	
Rep. Tom Burnett	P	
Rep. Rob Cook	P	
Rep. Betsy Hands	A	
Rep. Mary McNally	P	
Rep. Carolyn Pease-Lopez	A	
Rep. Wayne Stahl	A	

Members Absent

Sen. Taylor Brown
Rep. Betsy Hands
Rep. Carolyn Pease-Lopez
Rep. Wayne Stahl

Staff Present

Tori Hunthausen, Legislative Auditor
Cindy Jorgenson, Deputy Legislative Auditor
Ann Hernandez, Word Processor InDesign Supervisor

The Legislative Audit Committee met, April 7, 2011, in Room 172 of the State Capitol. Chairman, Senator Mitch Tropila called the meeting to order at 00:10:36 a.m., noting the presence of a quorum.

AUDIT REPORT

MONTANA STATE LOTTERY (10-30A)

00:10:55 Report presented by: Jeane Carstensen-Garrett, Audit Manager

Present from the agency: Angela Wong, Director
Jeri Duran, Director of Sales and Marketing
John Tarr, Director of Security
Armond Sergeant, Director of Financial Services

00:27:22 **Agency response presented by:** Angela Wong, Director
John Tarr, Director of Security

Handouts: None

Concerns/Discussion topics:

The committee had concerns with how long it would take for the recommendation to be implemented. Wong stated that recommendation 1, 2, 3, and 6 were concurred and completed but 4 and 5 could take up to a month to implement.

There were concerns with the committee on problems with employee turnover, whether this is the root cause of the issues and if it has been addressed. Questions were asked about how many new employees were hired during the audit period. Sergeant commented one besides the director and Wong stated the previous director had been there for six years. Wong was confident the turnover problem with employees was corrected.

Check disbursement was questioned; when an employee is gone who takes care of the checks. Sergeant explained two other employees are crossed trained to do each other's jobs. Other concerns were expressed over why it took nine months after cash was disbursed to record the down payment for the Lottery vending machines as an expense and whether the system allows this. The previous finance director recorded the down payment as a pre-paid asset, so it did not hit the income statement and did not go through an appropriation. Sergeant stated he would have to get back to the committee on the number of checks written for operating expenses. He thought approximately 1,500 were written each year.

The purchase of the lottery vending machines was requested by various retailers across the state. The Lottery had the choice of paying cash of about \$900,000 or increasing their percentage of sales paid to the vendor, which over the life of the contract would cost about \$2.8 million. The Lottery thought they would have enough appropriated money to be able to pay for the first half of the machines. Throughout the year sales increased over \$3 million and the related fees to the vendor (5.8%) also increased. The fees are paid out of their appropriation, so over \$200,000 of the appropriated money they expected to be available was gone by the time the machines were delivered.

The appropriation in House Bill 3 for Montana Lottery is requesting authority to pay for increased vendor fees in fiscal year 2010 and the remaining lease for the lottery vending machines purchased in fiscal year 2010.

The Lottery amended the contract with their vendor, receiving 250 free Coronis MP Lottery machines in exchange for allowing the vendor to relocate some of its Helena employees to the headquarters in Boise, Idaho. The value of this transaction to the state of Montana was recently accounted for in the Lottery's records at \$1.6 million. No one at the Lottery was sure how that amount was quantified, but they believe it is the amount the Lottery would have paid if they purchased those machines.

Because of the contract amendment 7 of the 24 Helena based employees either lost their jobs or relocated to the Boise facility.

The decisions on the contract amendments were made by the director, not the management team, and they did not have the concurrence of the commission. Ms. Wong stated that they have drafted a policy since she took the position that the commission will now be informed of all contracts.

Committee requests: Rep McNally requested an organization chart. The Committee requested the Director come back with answers to the recommendations, goals, objectives, and some action plans to ensure there will not be another audit like this again.

Public Comment: None

Actions taken: None

Motion: Report received, reviewed, filed, and copies distributed in accordance with law. Motion by Senator Larsen; **motion carried.**

The next meeting of the Legislative Audit Committee will be at the call of the chair following the legislative session.

There being no further business, the meeting was adjourned at:01:12:33 p.m.

Signed: _____