

Audit Committee

Special Meeting

September 08, 2011

11:15 a.m.

held at the

Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut

Board Members: Martin Stauffer, Chairman of the Audit Committee; Steven Bafundo, Robert Dakers, Michael Thompson, Frank Farricker Chairman of the Board, and Gale Mattison, Vice Chairman of the Board.

Absent: Patrick Birney.

Staff Members: Anne M. Noble, President & CEO; Barbara Porto, Chelsea Turner, Diane Patterson, Michael Hunter and John Ramadei.

Guest: Louis Roberts, representing Ernst & Young, LLP

Call to Order: Chairman Stauffer called the meeting to order at 11: 25 a.m.

I. Approval of Minutes:

On a motion made by Mr. Bafundo, seconded by Mr. Thompson, and unanimously approved, it was *“Resolved, that the Minutes of the November 8, 2010 Audit Committee meeting be approved.”*

II. Executive Session – Multiple Issues:

Chairman Stauffer stated that the next item for consideration concerned an Executive Session for discussions of three issues:

1. Review of draft Audit Report for fiscal 2011 with Ernst & Young;
2. Update of the Network Security Assessment project performed by L-3 Communications; and
3. Review of Pending Claims and Litigation.

Mr. Bafundo made a motion at 11:30 a.m. to move into Executive Session to discuss the issues noted above. The motion was seconded by Mr. Thompson and unanimously approved.

All staff members present were invited to join the Committee for the Executive Session. Mr. Louis Roberts, representing Ernst & Young, was invited to join the meeting.

At 12:10 p.m., the Executive Session ended and the Committee returned to regular session. Chairman Stauffer stated that neither actions nor votes were taken during Executive Session.

Chairman Stauffer noted that there were no issues reported for the audit of fiscal 2011, and no new items were reported by Ernst & Young for inclusion in the Management Letter for fiscal 2011. Recommendations in the prior Management Letter had been addressed by management and were resolved to the satisfaction of Ernst & Young. The Chairman thanked Mr. Roberts for the professional services performed by his firm for the Lottery.

Chairman Stauffer stated that the Audit Committee would request that management prepare a report to summarize the collection and bonding procedures utilized by the Lottery. The report should include overall collections and amount collected in the field, cost of collection procedures and cost benefit analysis, internal controls over personnel and segregation of duties, including collection and depositing of receivables. The report should also address the security and safety of handling cash, including the amount of cash carried and security procedures in place for handling cash. With regard to bonding, the Committee

requested more information on bonding procedures and standards, including standards to ensure consistency and to establish the bond amount. The Committee advised that the report should identify who sets the bond amounts, internal controls on bonding, segregation of duties between bonding and collections, and waiver authority. The Committee noted that the President, by statute, establishes surety. Finally, the Committee advised the President to use her discretion in the method for compiling the report. Mr. Roberts, having concluded his presentation to the Audit Committee, left the meeting at 12:15 p.m.

Chairman Stauffer noted that only the first item scheduled for the Executive Session had been discussed, and he advised that it was necessary to return to Executive Session for discussion of the remaining items.

Mr. Bafundo made a motion at 12:15 p.m. to return to Executive Session. The motion was seconded by Mr. Thompson and unanimously approved.

All staff members present were invited to join the Committee for the Executive Session.

At 12:35 p.m., Executive Session ended, and the Committee returned to regular session. Chairman Stauffer stated that no actions nor votes had taken place during Executive Session.

III. Old Business:

Chairman Stauffer noted two items on the agenda under old business:

1. Presentation of the 2011 SAS 70 Report on Operating Controls in place at Scientific Games International; and
2. A review of tax issues related to 3402(t) Withholding Requirements.

Chairman Stauffer requested management update the Audit Committee on these items. Mr. Ramadei presented the SAS 70 report prepared by Berry, Dunn, McNeil & Parker and noted that there were no significant exceptions noted in the report on Scientific Games' operating controls. Mr. Ramadei then presented a brief overview on new withholding requirements noted in IRS Code Section 3402(t), which are currently scheduled to take effect on December 31, 2012. Mr. Stauffer requested that management follow any developments related to this new code section and report to the Audit Committee at future meetings.

IV. New Business:

None

V. Adjournment:

On motion made by Mr. Stauffer, seconded by Mr. Bafundo, and unanimously approved, the meeting was adjourned at 12:45 p.m.

Respectfully submitted,

By: Anne M. Noble
President and Chief Executive Officer
Connecticut Lottery Corporation