

**North Carolina Education Lottery Commission Meeting
Meeting Minutes**

Wednesday, December 14, 2022

Commissioners in Attendance:

Ripley Rand, Chair
Cari Boyce
Lindsey Griffin
Chris Hayes
Nigel Long
Joshua Malcolm

Jason Roth
Pamela Whitaker

Commissioners Absent:

Randy Jones

Staff in Attendance:

Mark Michalko	Bill Jourdain
William Taurig	Randy Spielman
Terri Avery	Terri Rose
George Walker	Susan Singley
Hayden Bauguess	Van Denton
Joe Cosgriff	Joe Norman
Marbet Cuthbert	Michelle Freeman
Mike Suggs	Reggie Barnes
Cheryl Sutton	Eric Snider
Stacy Askew	Tami Wiggs
Amanda West	Daniel Rose
Damen Harris	Mariam Herring

Other Participants:

Benjamin T. Spangler, *Assistant Attorney General,
Department of Justice*
April Adams, *Audit Partner, Cherry Bekaert LLP*

The North Carolina State Lottery Commission meeting was held on Wednesday, December 14, 2022, at 10:00 a.m. via Webex.

Commission Chair Ripley Rand opened the meeting, greeted all Commissioners and meeting attendees, and introduced Commissioner Cari Boyce, who Governor Roy Cooper recently appointed to the Commission.

Commissioner Rand read Ethics Announcements regarding Commissioners who have recently filed Statements of Economic Interest for review by the State Ethics Commission.

New Commissioner Boyce received positive findings from the State Ethics Commission. Based upon her Statement of Economic Interest, the State Ethics Commission found that Commissioner Boyce may have potential conflicts as a result of her non-NCEL employment and financial interests. The Ethics Commission will rely on Commissioner Boyce to identify any potential issues and recuse herself as appropriate.

Commissioner Rand asked the Commissioners whether anyone has a known conflict of interest in any matter before the Commission; there were no conflicts identified. Commissioner Rand reminded

Commissioners that funds raised by the NCEL should be used to supplement and not supplant education dollars in North Carolina and such expenditures are controlled by the North Carolina General Assembly.

Roll call of the Commissioners was taken.

William Traurig, Chief Legal Officer, read the remote meeting announcements.

Attendees recited the Pledge of Allegiance.

Approval of Minutes

Commissioner Roth made a motion to approve the minutes for the September 28, 2022, Commission Meeting. Commissioner Hayes seconded the motion; Commissioner Boyce abstained because of her absence from meeting. The motion carried.

Finance and Audit Committee Report

2022 Audit Wrap Up

April Adams, CPA with outside auditor Cherry Bekaert LLP, presented a report to the Commission regarding the NCEL's annual external financial audit.

The audit revealed:

- No significant deficiencies or material weaknesses.
- No significant changes in accounting policies throughout the year; no audit adjustments; full cooperation from management.
- GASB 94-Public-Private and Public-Public Partnerships and Availability Payment Arrangements; GASB 96-Subscription-Based Information Technology Arrangements; and GASB 101-Compensated Absences in 2023. Potential impact on the NCEL will be discussed with management in coming year.

Commissioner Malcolm asked how the GASB requirement will affect sick leave. Ms. Adams stated that the GASB will not affect the NCEL because compensated absences are transferred to the State retirement system account rather than paid out.

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration, and Security, thanked and congratulated Ms. Michelle Freeman, Director of Finance, and the entire finance & accounting team on the clean audit and report from Cherry Bekaert.

Financial Update

Bill Jourdain, Deputy Executive Director of Finance, Administration, and Security, provided an update to the Commission.

Financial Review: Fiscal Year 2023 to Date (through October 31, 2022)

- Total assets of \$216M which include \$111M in cash, \$77M in annuity award investments, and accounts receivable of \$18M
- Total liabilities of \$260M including \$48M in outstanding prize awards, \$77M in annuity and \$85M due to State of North Carolina for Education
- Ticket sales are \$161M ahead of last year, an increase of 12.67%, and \$271.8M ahead of original approved budget (+23.45%)

- Total revenue in the four-month period was \$1.433B with total expenses of \$942M, or 73.1% of revenue. Prizes accounted for \$950M of expenses, retailer commissions \$97.4M, and gaming systems & licenses \$30M. Administrative expenses are \$28M, or 2% of revenue.
- Cash transfers to Office of State Budget and Management total \$313.4M as of November 30, 2022.

Internal Audit Update

Mike Suggs, Director of Internal Audit, presented an update to the Commission.

Audit of End of Games

- This audit's scope included: an assessment of compliance with statutes; policies; the accuracy of financial data; and the effectiveness of controls over process. Internal Audit selected and reviewed test games of transaction to assess compliance, timeliness, reasonableness, effective fiscal management practices, and related internal control. The time period for the audit was January 2019 through October 31, 2022.
- After reviewing procedures and processes followed by Security at and around the end of games, the audit recommends for NCEL Security to develop more formal End-of-Game procedures (e.g., ticket destruction).
- The audit opinion concluded that the controls over the End-of-Game Process and actions to ensure compliance with applicable statutes, policies, and procedures appear to be adequate and have been sufficiently designed to mitigate potential risk.

Internal Audit Quality Assurance and Improvement Program Results

- The Internal Audit Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to its various stakeholders that Internal Audit performs its work in accordance with its Charter and in a manner consistent with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (Standards), Definition of Internal Auditing and Code of Ethics.
- The NCEL's Internal Audit department conformed to the standards and framework to comply with the QAIP Program, including undertaking internal self-assessments and external quality assurance reviews.
- The Internal QA activities included supervisions and quality control; customer focused services; benchmarking and measuring quality and annual review of Internal Audit Governances.
- Program elements included training, performance evaluations and professional affiliations and involvement.
- NCEL internal auditors are expected to be objective and independent in conducting their work through individual objectivity.
- The internal Auditor is responsible for the QAIP.

Revenue Generating Committee Report

Brand Management & Communications

Terri Rose, Deputy Executive Director of Brand Management & Communications, presented an update to the Commission.

Advertising Activities

- October

- Jackpot Awareness for \$800M Powerball jackpot
- October Scratch-Off advertising focused on four new games; Wild Doubler (\$2), Orange Tripler Cashword (\$3), The Price is Right (\$5), and Mega 7's (\$20)
- Comprehensive Winners Club Campaign included players finding their winning celebratory move and comment for a chance to win new scratch-offs
- TV and radio on air Oct 4-23, with additional supporting interactive social media campaign.

- November
 - Launched 6 new Holiday games, supported by TV and radio on-air Nov 1-20 and Dec 6-24; POS, Digital & social media
 - Holiday post focused on giving, with a racing reindeer microsite where visitors could select their reindeer and race while collecting snowflakes. Scores were entered on leaderboard for bragging rights and players could enter for a chance to win Holiday scratch-offs.
 - Fast Play games: launched 2 new games with TV and radio on-air Nov 7-27 and Social media, multi-media, digital and POS
 - Fast Play Excuse Generator - players offered chance to win a growing jackpot instantly using an excuse to stop what they were currently doing and grab a ticket to win
 - Fast Play Digital displays current jackpot amount
 - Comprehensive campaign
 - Keno/Fast Play cross promotion; players received a Fast Play Merry Money ticket with a \$5 Keno purchase
 - Multi-media, social media and POS used to promote offer
 - Black Friday Online promo; players received 50% deposit match up to \$50 for online play games. Social and digital media ads provided a promo code for offer and directions to a landing page on website to learn about offer.
 - Play Smart Social & Digital ads on social media

- December
 - 4 new scratch games, supported by TV, radio, interactive social media, POS
 - Holiday TV and radio continue on-air Dec 6-24
 - December Beneficiary testimonial campaign included TV, radio, print, digital, social media and multimedia at retail locations.
 - TV and radio air Nov 28-Dec 24

Marketing Sponsorships

- Professional Sports: Panthers, Hurricanes, Bank of America Roval 400 weekend at Charlotte Motor Speedway, zMax Dragway NHRA Carolina Nationals, and World of Outlaws Dirt Track event)
- Concluded 9 nine minor league baseball sponsorships and the MLS Charlotte FC sponsorship

- Secured agreements for 2022-2023 basketball season with thirteen universities throughout NC
- Community Events: 12 fall events. Promoted new Fireball feature for Pick 3 & Pick 4.

Communications with Stakeholders

- Invited by Caswell County officials to attend ribbon-cutting for new high school in October, \$15M (about half) came from monies raised by Lottery; NCEL representatives met with local school board members.
- Randall Keen, retired administrative operations manager became first lottery employee to receive the highest honor bestowed on a state employee, the Governors' Award for Excellence.

Big Winners

- Eight North Carolinians won trip to New York for New Year's Eve; one has a chance to become the Powerball First Millionaire of the year.
- A former teacher won Fast Play jackpot the day before her birthday.
- Powerball: Eight players won prizes ranging from \$50k to \$1M in the \$2.04B jackpot on Nov 4.

FY2022 Minority Spend Update

We set an expanded goal last year of \$1.092M in incremental diversity spending and came in just under goal at \$1.034M. The leadership team is going to revisit the goal for next year and will share an updated target at next quarter's meeting.

Product Development & Digital Gaming Update

Randy Spielman, Deputy Executive Director of Product Development & Digital Gaming, presented an update to the Commission.

Scratch Off Update

- October
 - \$5 Price is Right scratch off launched. Player will be sent to Las Vegas to participate in lottery-player-only version of Price is Right.
 - YoY +14.61%
- November
 - Launched 6 holiday scratch off games in every prize point (\$2, \$3, \$5, \$10 & \$20).
 - YoY +17.6%
- December
 - Triple 777's scratch off launched featuring new print innovation.
 - YoY - TBD

Powerball

- Individual draw sales were down slightly compared to the Mega Millions jackpot run in July, but weekly game sales during that time period were up due to the addition of the 3rd drawing per week for Powerball.

- Higher interest rates lead to higher advertised jackpots due to annuitized prize.

Pick 3 and Pick 4

- Initiative increase sales with addition of Fireball and removal of Sum It Up and 1-Off
- Ongoing promotions to increase sales for P3 and P4

Fireball Update

- Fireball sales target of 5% of overall game sales, to date it is accounting for 6.25% of total Pick 3 and Pick 4 sales.

Fast Play

- New games focus on incremental increase in sales.
- Holiday game launch has had a positive impact on overall sales
- Upcoming game plan will include a game rotation in January and two new games in April/May.

Upcoming Promotions

- Series of one-day online games promotions will be used to encourage digital engagement and marketing email sign-ups

Digital Scorecard

- 2nd Quarter revenue – YoY +128%
Powerball - +217 (21%); Mega Millions - +130 (26%); Cash 5 - +18% (27%);
Lucky for Life - +46% (42%)
- Over 500,000 players have purchased online since 2009, an increase of +92,000 since last quarter

Digital Support Services Contract Update

- Digital Support contract was finalized with Pollard in November; site audit and recruitment process has begun for Digital Analyst position

Commissioner Hayes asked Mr. Spielman if commissions are paid for processing online play in comparison to retailers or if there is a savings with the digital platform. Mr. Spielman informed the Commissioner that platform fees, which include the loyalty platform and the mobile app (among other services), are paid at a higher rate than retailer commissions; however, no retail commissions are paid on online sales.

Sales Update

Terri Avery, Deputy Executive Director of Sales, presented an update to the Commission.

Retailer Advisory Panel

- In 2012 the NCEL established the Retailer Advisory Panel (RAP) to learn and address the needs of retailers and to provide retailers a forum to give input for our programs, sales practices, and game development.
- RAP consist of two representatives from each region of the state and one at large member from NC Merchants Association.
- Recommendations from RAP helped NCEL implement improvements, such as new terminal features; reporting features; ticket checkers away from counters; repeat play for draw games; “Where the Money Goes” county snapshots for retailers to display; all-in-one ticket dispenser;

Monday UPS delivery for new scratch-off games; and upcoming multiple activation in single transaction process.

FY2023 Facts and Figures

Holiday Games

- Before December 1, 2022 the NCEL had 99% penetration (i.e., before the Holiday Games' launch week).
- Remaining inventory as of today at \$1 – 5%; \$2 – 8%; \$3 – 19%; \$5 – 14%; and \$20 – 24% and on target for 100% sell out by end of month.

Retailer Expansion

We have new growth opportunity with existing business and slated to have business with three new retailers.

- Walmart – 190 stores with new growth of 15 new locations in 2023
- Wawa – expanding to NC; C-store with 2 stores in eastern NC projected in the relative near-term
- Royal Farms – expanding from VA with 6 stores
- Publix – has 51 stores, will add 3 new locations.

Operations and Personnel Committee Report

Marbet Cuthbert, Director of Human Resources presented an update to the Commission.

Ms. Cuthbert stated she contacted other state agencies that have statutory and policy flexibility in Human Resource matters same as the NCEL because of their exemption from the state Human Resources Act, to see whether they offered a PTO payout. She learned that the NC Medical Board offers such a program.

Demographics Update

Chairperson Whitaker presented the NCEL update;

- Turnover rate - 7.45%; Filled positions - 68% through new hires (47% female and 19% minorities); 32% fill through promotions (80% females and 40% minorities).
- Recruiting metrics are important for hiring and enable NCEL to see trends and predict hiring in the market.

Amendments to Policies 4.10 and 4.11

Commissioner Whitaker made a motion on behalf of the Operations & Personnel Committee to amend Policies 4.10 and 4.11. In summary, the changes include the following:

- Policy 4.10 - Revise the policy (i) to increase the amount of allow PTO directors and above can opt to cash out to elect to use up to 120 hours of PTO per year in the NCEL's cash-out program, as long as they retain 40 hours in their bank, and (ii) to eliminate the one year of service requirement before employees can request a PTO payout. These proposed changes would put the impacted employees on par with other employees in the organization.
- Policy 4.11 – Revise the policy to eliminate the one-year service requirement before employees can request a PTO payout.

Discussion: Commissioner Malcolm stated his support of the changes as represented and requested that the PTO policy be reviewed during the next year. Motion passed.

Executive Director Review

Legal

Mr. William Traurig, Chief Legal Officer, stated to the Commission that a review of gaming contracts and options will begin in the coming months.

- IGT – gaming system which runs draw games, instant ticket validation, vendor installs and vending machines; expires June 30, 2027.
- SciGames – primary scratch off games vendor, expires June 30, 2025.
- NPI – vendor for online play and player loyalty program, expires June 30, 2024; will be first contract to be reviewed.

Each contract has different options and option lengths. These will be taken into consideration as to whether options are exercised or if an RFP will be done.

Minority Business Review

Dr. Cheryl Sutton, Director of Supplier Diversity and Outreach, presented an update to the Commission.

Dr. Sutton stated that the NCEL has exceeded its 10% diversity spend goal and highlighted on-going improvements to expand on the inclusion of all diverse categories.

- Total \$147M in expenses with \$38M – 25.7% with diverse firms
Breakdown: 20.2% - women; 5.1% minority thru vendor sub-contracts; 0.3% - Black; 0.2% - Asian.
- Specific goals include improving spending with veterans, Hispanics, and American Indian partners/vendors.

NCEL is currently implementing plans to further ingrain a commitment to diversity as a part of the NCEL's culture. Enhanced methods are being developed to track diverse spending via a report directly through our Finance system.

Commission Whitaker stated if information was available on a company in the Alamance-Guildford County area that has outreach with Latinos businesses.

Commissioner Long extended congratulations to Dr. Sutton for her report and offered assistance when needed.


Legislative Update

Hayden Bauguess, Director of Governmental Affairs, presented an update to the Commission.

The General Assembly is presently out of session. Elected members are preparing for the upcoming January 11, 2023, installation of new members and will return January 25, 2023, for the long session. The House was in session temporarily on December 13, 2022, for out-going members.

Other Business

With no other business to discuss, Chairman Rand thanked everyone for attending meeting. A motion was made by Commissioner Pamela Whitaker to adjourn. The motion was seconded by Commissioner Cari Boyce and passed unanimously. The meeting adjourned at 11:37 am.

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Chairperson Ripley Rand

4/11/2023

Date