

# North Carolina Education Lottery Commission Meeting

## Meeting Minutes

Tuesday, December 2, 2014

*Commissioners in Attendance:* Keith Ballentine, Chairman  
Amy Ellis  
Chris Shew  
Jody Tyson  
Courtney Crowder  
AJ Daoud  
Alice Underhill

*Commissioners not in Attendance:* David Kirby  
Doug Baker

*Staff in Attendance:* Alice Garland  
Caryl James  
Bill Jourdain  
Mike Suggs

*The North Carolina Education Lottery Commission meeting was held Tuesday, December 2, 2014 at 9:45am, at NCEL headquarters, located at 2100 Yonkers Road, Raleigh, NC.*

Chairman Ballentine called the meeting to order and reminded the Commission that they operate under the State's code of ethics. He also informed commissioners that funds raised by the North Carolina Education Lottery (NCEL) should be used to supplement, not supplant education dollars in North Carolina and that such expenditure is controlled by the North Carolina Legislature. Chairman Ballentine reminded Commissioners to be mindful of NC ethics laws, as well as the NCEL Commissioner Code of Conduct, and in particular, the giving and receiving of gifts.

Chairman Ballentine presented the minutes from the September 16, 2014 Commission meeting. Hearing no suggested changes, Commissioner Daoud made a motion to approve the minutes as written and Commissioner Crowder seconded. The minutes were approved.

### **Finance and Audit Report**

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial report for the month of October 2014. In the statement of net position, October 2014 ended with total assets of \$149.2 million, which included \$65.1 million in cash and \$57.4 million in annuity award investments. Accounts receivable totaled \$20.8 million of which \$17.5 represents six (6) days of next receipts from the gaming system to be collected via electronic funds transfer in November.

Total liabilities of \$149.2 million included \$44 million in outstanding prize awards and vendor accounts payable, \$57.4 million in long term annuity prize awards payable and \$41.1 million due to the Education Lottery Fund.

In the statement of revenues, expenses and changes in net position, operating revenue for the month of October 2014 totaled \$161 million. Tickets sales for the month of October 2014 totaled \$160.5 million, a 10.39% increase over the same time last year. New revenue earned for education in October 2014 totaled \$41.1 million, a 2.75% increase over the same time last year.

Total operating revenue for the first four (4) months of FY2015 totaled \$619.9 million. Tickets sales for the first four (4) months of FY2015 totaled \$618.1 million, a 3.67% increase over the first four (4) months of FY2014.

Net revenue earned for the Education Lottery Fund for the first four (4) months of FY2015 totaled \$161.2 million or 26% of revenue – a decrease of \$5 million from the first four (4) months of FY2014.

The NCEL Finance Department will begin using the new accounting system, AX, on May 1, 2015. Testing and implantation of the new system has already begun. The new system will interface with the State of North Carolina's current financial programs.

Executive Director Alice Garland reminded Commissioners that when the FY15 budget was passed in June, she would potentially request a slight increase in the advertising budget at a future date. The current advertising budget is \$19 million with the potential to increase to \$20 million. Executive Director Garland is requesting a slight increase to \$19.5 million. Commissioner Daoud made a motion to increase the advertising budget by \$500,000 to a total of \$19.5 million. Commissioner Shew seconded. The motion passed.

Mike Suggs, Director of Internal Audit, introduced Collin Hill, an auditor with Cherry Bekaert. Mr. Hill presented the annual independent audit (year ending June 2014) of the NCEL finances. Mr. Hill reported that the NCEL's financial audit was a clean, smooth audit.

Mr. Suggs presented an update on completed audits, open active audits and upcoming audits. There were four final audits completed: Instant Tickets and Inventory Controls, Advertising Expenditures, ES Series, and Travel and Motor Fleet. There were no action items to report. Active audits include draw games and the cash electronic funds transfer and accounts receivable audit. Promotional items and special events audits, along with an MIS continuous monitoring audit will begin in early 2015. Previously open items involving the security audit have been closed. The RFP for upcoming security audits will be issued soon. Delahanty Consulting is currently performing the performance audit. The quality assurance review must be completed every five (5) years. Preliminary work will begin in December and the final report should be completed in February 2015.

The Audit Charter and Internal Audit Department recommend an annual confidential review with the Commission. The Commission entered closed session. Commissioner Tyson made a motion to enter closed session and Commissioner Daoud seconded.

### **Operations and Personnel Report**

Ms. Caryl James, Director of Human Resources, introduced Ms. Ruth Ann Eledge, Vice President of Segal Waters Consulting, who presented the results of the organizational study that was recently conducted on the NCEL. Supporting documents were distributed to Commissioners. Because some information in the documents was proprietary, Chairman Ballentine reminded Commissioners that it is not subject to being shared.

Committee Chairman Tyson presented information to the Commission regarding recent NC Department of Labor complaints that were filed against the NCEL. The issues have been addressed and are in the process of being closed. The NCEL was not fined or cited for any wrong doing.

Committee Chairman Tyson provided information to the full Commission about adding four (4) critical positions at the NCEL. The Operations and Personnel Committee discussed the issues at length at their earlier meeting. Four positions to be considered are: 1) Responsible Gaming Specialist/Government Affairs Assistant, 2) Gaming Reporting & Analysis Specialist, 3) Network Engineer, and 4) Graphic Designer. The Ops/Personnel Committee made a recommendation to the full Commission that these positions be approved. Commissioner Daoud requested position descriptions and budget implications of adding the new positions. Chairman Ballentine moved for an approval of adding the new positions. All were in favor, except Commissioner Daoud who opposed them.

### **Executive Director's Report**

Frank Suarez, Jr., Deputy Executive Director of Brand Management and Communications presented the Brand Management quarterly report:

- First State Fair appearance was a success
- \$200 Million Blowout scratch-off launched on October 7
- Monopoly Millionaires Club (MMC) launched on October 19 with 5 weeks of advertising
- NC held exclusive one million dollar drawing to kick off MMC launch
- Suite of holiday tickets called "Jingle Bucks" was released in November and are performing well
- Week-For-Life core games retailer promotion will begin in January 2015
- Lucke-Zone has 517,000 members and growing

Alice Garland, Executive Director, presented an update on upcoming game changes:

- Powerball sales are down nationwide; therefore, the game will be changed in April 2015
- Monopoly Millionaires Club is a complicated game and sales are lagging
- NC plans to change the MMC ticket in February in an effort to eliminate player confusion and increase sales
- Play at the Pump pilot will launch in January 2015
- 1-OFF is a new play feature for Pick 3 and Pick 4 and will begin February 1
- All or Nothing promotion begins December 8

Jaime Fuquay, Director of Government Affairs presented information regarding the NCEL strategic plan:

- Newly created NCEL vision statement
- Strategic Plan includes six (6) goals:
  - Increase net revenues for programs identified by the NC Legislature
  - Expand the NCEL player and retailer base
  - Grow and improve through cost effective and efficient technologies and operations
  - Become a top twelve (12) US lottery in per cap sales and per cap return to state of NC
  - Enrich company culture and employee engagement
  - Provide value to the citizens of NC

Ms. Fuquay gave the Commission a brief legislative update.  
Alice Garland presented the Key Performance Indicators and contracts over \$90,000.

Being no further business, the meeting was adjourned.

  
W. Keith Ballentine, Chairman

3-10-15  
Date