

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, September 22, 2015

Commissioners in Attendance:

Keith Ballentine, Chairman
Alice Underhill
Amy Ellis
Chris Shew
Jody Tyson
Courtney Crowder
David Kirby
AJ Daoud
Doug Baker (*via conference call*)

Staff in Attendance:

Alice Garland
Jaime King Fuquay
Bill Jourdain
Frank Suarez, Jr.
Mike Suggs

The North Carolina Education Lottery Commission meeting was held Tuesday, September 22, 2015 at 9:30am, 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 requested roll call to ensure a quorum. Teri Riddle, Executive Assistant, called the roll. All Commissioners answered roll call except Commissioner Daoud. He arrived at the meeting a short time later.

Chairman Ballentine presented the minutes from the June 2, 2015 Commission meeting. Hearing no suggested changes, Commissioner Kirby made a motion to approve the minutes as written and Commissioner Tyson seconded. The minutes were approved.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the FY15 financial review. Mr. Jourdain reported that the NCEL met the challenge of returning \$520 million to the State of North Carolina during the FY15 year. The total transfer to the State for FY15-16 was \$520,642,000.00. Since inception, the NCEL has transferred \$3.967 billion to the State of North Carolina. He also provided a detailed yearly overview of earnings and expenditures for the NCEL.

Mr. Jourdain also presented the financial reports for July 2015. In the statement of net position, July 2015 ended with total assets of \$179.1 million, which included \$85.5 million in cash and \$62 million in annuity award investments. Accounts receivables totaled \$16.9 million, of which \$15.9 million in net receipts from the gaming system to be collected via electronic funds transfer in August.

Total liabilities of \$175.8 million included \$36.2 million in outstanding prize awards and vendor accounts payable, \$62 million in long term annuity prize awards payable and \$53.4 million due to the Education Lottery fund.

Total revenue for the one (1) month of fiscal year 2016 totaled \$161.9 million. Ticket sales for the one (1) month of fiscal year 2016 totaled \$161.5 million, a 7.6% increase or \$11.4 million over the same month of FY2015. Tickets sales are running 3.5% or \$5.5 million ahead of our FY16 budget target after one month of activity.

Net revenue earned for the Education Lottery fund for the one (1) month of FY16 totaled \$43.1 million or 26.7% of total revenue. That's an increase of \$4 million or 10.2% over the same month of FY15. Net revenue is about 5.4% of the estimated budget target.

Mr. Mike Suggs, Director of Internal Audit, presented the audit reports:

- Instant ticket and draw game validation audit(s)
 - Clean audit, no recommendations
- Continuous Monitoring Audit
 - One minor record keeping item has been resolved
- External Security Audit
 - Awarded to SeNet (Virginia)
 - Experienced with IT audits
 - Report should be completed by November 15, 2015
- DHHS Audit
 - DHHS Auditors conducting internal audit of the funds provided by the NCEL on an annual basis
- Retailer Contracts Audit
 - Completed on September 17
 - Ten (10) items found to improve processes and controls
- Quality Assurance Review
 - Targeted completion dates are the end of November 2015 and into 2016
- Prior Internal Audit Recommendations and Action Items
- Upcoming Audits
 - Retailer Services, Purchasing and Accounts Payable audits upcoming
 - Subscription, contract compliance and ES privileges

Received the SOC 1, type 2 and the SOC II, type 2 from IGT. No findings from either report.

Operations and Personnel Report

Committee Chairman Jody Tyson introduced the commission to the new Director of Human Resources, Marbet Cuthbert. Commissioner Tyson also praised NCEL staff for all their hard work and professionalism in handling tasks and projects.

Executive Director's Report

Executive Director Alice Garland thanked Commissioner Tyson for his comments and also praised the NCEL staff for the hard work that went into making the “Team 520” project such a success.

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

- EZ Double Days launched in June and drive significant EZ Match sales
- Carolina Cash 5 game changes are being evaluated – matrix change likely
- Four new scratch tickets launched in July and performed strongly
- All or Nothing promotion relaunched in August resulted in a 30% increase in sales
- “Bucks” line of core games refreshed to portray a “family” look
- BBQ Bucks launched in September
 - First scratch n’ sniff ticket in NC
 - East vs. West contest of best BBQ via social media
 - Winners receive free BBQ and a Green Egg grill
- \$30 Ticket – Ultimate Millions
 - \$10 million is the top prize – largest scratch off game prize in NC history
 - \$373 million in total prizes
 - Best overall odds
 - 3 - \$1 million second chance prizes
- Mountain State Fair
 - First year NCEL has attended and sponsored this fair
- Lucke-Zone
 - Current membership is 602,499

Jaime King Fuquay, Director of Government Affairs provided a Legislative update:

- The NC Legislature passed a budget in September. Big impacts include:
 - Redirected allocation of NCEL dollars
 - Removed funding for teachers and teacher assistant positions
 - Current FY16 and FY17 funding allocated to non-instructional personnel
 - Beneficiaries of Lottery dollars must disclose details about the NCEL funding received and communicate how those dollars are spent
 - A one-half percent increase in advertising spending was left out of the final budget
 - E-instant ticket options were excluded from the final budget
 - ALE funding increased from an annual \$1 million to \$2.1 million
 - The number of NCEL regional offices is capped at seven (7). NCEL currently has five (5).
 - EBT funds (public assistance funds) cannot be used to purchase lottery (always been an NCEL policy)
 - Office of Information Technology procedures do not apply to the NCEL
 - Prosperity Zones to include NCEL offices was omitted from final budget
 - Language prohibiting merit pay increases for NCEL staff was removed
 - State employees will receive a one-time \$750 bonus

- NCEL Strategic Plan
 - Revised plan presented to NCEL Commission for approval
 - Commissioner Daoud made a motion to approve the five-year plan as written and Commissioner Kirby seconded. The plan was unanimously approved

Alice Garland, Executive Director, presented the Executive update:

- December agenda item: ways to increase sales in NC – comparison of what other states are doing
- Update on office expansions and relocation of NCEL regional offices
- Powerball matrix change update
- NC will join “Lucky for Life” draw game in February 2016 (multi-state game)
- Internal operations update
- Key Performance Indicators (KPI’s)
- Contracts above \$90k
- NC State Fair: NCEL is sponsoring partner for second year in a row
- NCEL employee recognition awards
 - Bill Jourdain – Triangle Business Journal CFO of the Year award
 - Tony Chung – Triangle Business Journal CIO of the Year award
 - Bre Hager – National Council on Problem Gambling Responsible Gaming Newsletter award
 - Cory Trottier – Ott Brown Scholarship Award
 - David Nelms – NASPL’s Powers Award
 - Finance Staff – Government Finance Officers Association award for Excellence in Reporting
 - Employee of the Year was chosen by random drawing by Chairman Ballentine
 - Josh Goodson was selected on behalf his Promotion Staff Team consisting of Josh Goodson, Britni Holman, Eric Dixon, Zachary Lee, Dustin Hickman and Cory Trottier)

Chairman Ballentine called the board into closed session to discuss a personnel matter.

Open session resumed a short time later and, being no additional business, the meeting was adjourned.



 W. Keith Ballentine, Chairman

12-8-15

 Date