

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

Tuesday, September 21, 2021

Commissioners in Attendance:

Brad Adcock, Chairperson
Jason Roth
Joshua Malcolm
Nick Picerno
Nigel Long
Pamela Whitaker
Randy Jones
Ripley Rand

Staff in Attendance:

Mark Michalko	Bill Jourdain
Billy Traurig	Hayden Bauguess
Joe Cosgriff	Joe Norman
Marbet Cuthbert	Michelle Freeman
Mike Suggs	Tony Chung
Randy Spielman	Reggie Barnes
Susan Singley	Stacy Askew
Tami Wiggs	Terri Avery
Van Denton	Walter Ingram
Molly McClure	

Participants:

Benjamin T. Spangler,
Assistant Attorney General, Department of Justice

The North Carolina Education Lottery meeting was held on Tuesday, September 21, 2021, at 10:00 a.m. via Webex.

Chairperson Brad Adcock opened the meeting, and greeted all Commissioners and meeting attendees.

Roll call of the Commissioners was taken. Commissioner Jody Tyson is absent; all other Commissioners present.

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

Chairperson Adcock read the state ethics announcement.

Attendees recited the Pledge of Allegiance.

Approval of Minutes

Chairperson Adcock asked Commissioners to review minutes of the June 15, 2021 meeting and make a motion to accept the minutes. A motion was made by Commissioner Nick Picerno to approve the minutes. Commissioner Nigel Long seconded the motion. The motion passed unanimously.

Finance & Audit Committee Report

Finance Update – Information Only

Deputy Executive Director of Finance Bill Jourdain presented the financial results from Fiscal Year 2021:

- Total revenue was \$3.811 billion. \$2.56 billion in instant tickets made up largest percentage of sales.
- Lottery prizes accounted for 64.61% of distribution of revenue.
- Earnings to education were \$936 million, an all-time record.
- Administrative expenses were \$8.175 million less than budget, resulting in excess savings to education.
- Net earnings were 28.44% higher than prior year and 33.19% higher than budget.
- Since start up, NCEL has generated net proceeds of \$8.274 billion to education.

Highlights from FY2022 to date (period ending July 31, 2022)

- Total assets of \$412 million and total liabilities of \$454 million, most of which is \$310 million due to NC for education, and will be paid via regular quarterly transfer in October.
- Total revenue of \$317.7 million for the month of July. Administrative expenses as a percentage of revenue were 3.93% (statute specifies this should be below 8%).
- Net earnings were 1.97% above last year and 24.51% over budget.

Internal Audit Update – Information Only

Mike Suggs, Director of Internal Audit, presented the results of two audits:

Audit of Contract Compliance -

- The scope of the audit was to review compliance with State statutes, policies and procedures, agency governance, assessment of current operation processes, and the effectiveness of internal controls over procurement and contract processes, for the period of January 2019 through July 31, 2021.
- Objectives were to ensure contracts are awarded in compliance with NCEL policies and procedures, deliverables are reasonable and properly approved, contracts have assigned administrators who are tasked with ensuring all deliverables are provided, contracts that are up for renewal are properly renewed before expiration date, that contractors comply with reporting requirements contained in the contract, that NCEL conducts proper background investigations on vendors, and that NCEL is not using vendors that are listed on the State's disbarred list.
- After conducting reviews of the above, Internal Audit concluded that controls over Contract Compliance are adequate and have been sufficiently designed to mitigate risk. Mr. Suggs presented the exceptions and recommendations as well as opportunities which NCEL staff is already working to implement.

Audit of Accounts Payable, Purchasing, and Fixed Assets –

- The audit scope was to evaluate NCEL's policies, procedures, accuracy of financial data, and effectiveness of controls over processes from January 2019 to present. The audit included the collection and review of samples of purchase requisitions, purchase orders, expenditures, accounts payable, disbursements, fixed assets, and p-card transactions. It is Internal Audit's opinion that the controls over Accounts Payable, Purchasing and Fixed Assets along with the compliance of appropriate policies appear to be adequate and have been sufficiently designed to mitigate potential risk.

- Due to the COVID-19 pandemic, the planned 2020 fixed asset audit was not completed. The 2021 review is being done now.

Internal Audit Self-Assessment and Maturity Model (SAMM)

Mr. Suggs presented this new tool required by the State, a framework for assessing the capabilities of internal audit as compared to professional standards. This helps us to determine if we are complying with standards and also serves as a roadmap to identify and implement improvements if necessary.

According to this tool we are well within professional standards; no actions need to be taken.

Commissioner Pamela Whitaker thanked Mr. Suggs for his presentation and congratulated him on the SAMM findings which show strong results for the NCEL's audit structure and procedures.

Commissioner Long requested a copy of the SAMM document; Mr. Suggs will send.

Revenue Generating Committee Report

Brand Management Update – Information Only

Susan Singley, Director of Advertising and Interim Director of Brand Management & Communications, presented an update on Brand Management activities in Q1 of FY2022.

- July
 - 5 new games - Corvette & Cash is most prominent with extensive ad campaign.
 - Facebook Live event for 7/11/21 was largest to date viewership for a live social media event with over 400,000 people in attendance.
 - Lucky for Life went to 7 days a week.
- August
 - Powerball promotion kicked off for New Years Rockin' Eve.
 - 4 new scratch-offs in August, focusing primarily on Premier Cash.
 - Three new Fast Play games.
 - Powerball went to 3 nights a week (adding Monday in addition to Saturday & Wednesday).
 - Carolina Keno ad campaign with two TV spots and digital & social support.
- September
 - 5 new scratch-off games, focusing on The Bigger Spin.
 - Beneficiary Back to School Campaign demonstrating with personal testimonials how NCEL's revenue benefits educational programs.
 - High Jackpot Awareness advertising as both Powerball and Mega Millions are above \$300 million.

Advertising Contract – Action Item

Ms. Singley presented the RFP procedure and NCEL staff recommendation for procurement of a new advertising agency.

After a rigorous two-phase process lasting several months, the Evaluation Committee has selected Cactus Marketing and Communication, a Colorado agency, as the final candidate to present to the Commission for approval.

- Cactus has extensive lottery experience, working for the Colorado lottery for the past 13 years.
- They have committed to a team of 35, with 9 full time assigned to NCEL and 26 additional in support roles.

- Financial viability was found to be sound by independent auditors.
- Cactus takes seriously NCEL’s priority of meaningful minority representation and provided NCEL with details on their internal and external efforts to ensure minority representation and support.
- Second-lowest cost of all agencies reviewed; generally in line with what we have been paying.

Commissioner Randy Jones asked who was on the Evaluation Committee. This was confirmed to be:

- Tami Wiggs, Director of Marketing
- Amanda West, Director of eCommerce & Digital Platforms
- Susan Singley, Director of Advertising / Interim Director of Brand Management & Communications.

A motion was made by Commissioner Long to approve the motion as presented by the Revenue Generating Committee. No second is required. This approval is contingent upon background checks and negotiation of the contract. Commissioner Ripley Rand recused himself from the vote as he is not certain he doesn’t have conflicts of interest. The motion passed unanimously with one abstention.

Product Development Update – Information Only

Randy Spielman, Deputy Executive Director of Product Development and Digital Gaming, presented a Product Development Update to the Commission.

Q1 Scratch-off Game Launches:

- 5 in July +0.11% increase over last year
- 4 in August +5.4% increase over last year. Higher price point games continue to do better than lower price points (this trend began with the pandemic).
- 5 in September
 - The Bigger Spin was highlighted in September. This game is intended to bridge the gap between retail and digital, with traditional scratch-off prizes but also a code to play online with an additional opportunity for a “Game Show” style live event at WRAL.

Draw Game Update

- Frequency Changes
 - Lucky for Life is now daily. This resulted in 75% increase in retail sales & online sales up 120%, equal to \$391,000 per week.
 - Powerball added a third draw on Mondays, resulting in +38% retail sales and +88% online sales, or \$960,000 per week, with the caveat that we have seen large jackpots that are also impacting Powerball sales.
 - Most of the increased sales are incremental but we are seeing some impact to Cash 5.

Commissioner Jones thanked Mr. Spielman for the information clearly showing that retail sales are not being negatively affected by increases in online play. Retail is still the strongest part of our business and is continuing to grow.

- Fast Play – In the one year since launch, Fast Play has out-performed all expectations. In Q1 NCEL introduced several new Fast Play games to keep this fresh.

Sales Update – Information Only

Deputy Executive Director of Sales Terri Avery presented a Sales Update to the Commission.

- In FY 2021:
 - 6.7+ million packs shipped, over 100,000 sales rep service calls were made, and 49,219 checks were processed in claims centers
 - 34.95 average dispensers per retailer, well above industry standard
- FY 2022 new game launch penetration is 99%, a new statewide record

Legislative Update – Information Only

Director of Legislative Affairs Hayden Bauguess presented a Legislative Update to the Commission.

The House and Senate are still working on budget negotiations and are on track to finish this week.

- House Version: NCEL target for FY 2022 is \$802M, FY 2023 is \$830M. Includes a 5% pay raise for state employees over 2 years (2.5% per year).
- Senate Version: NCEL target for FY 2022 is \$784M, FY 2023 is \$803M. Includes a 3% pay raise for state employees over 2 years (1.5% per year) & \$1000 bonus for all employees with an additional \$500 for employees with salaries under \$75k).

Senate Bill 688 (Sports Wagering) passed the Senate 26-19 about 2 weeks ago. No action has been taken by the House.

House Bill 954 (Video Lottery Entertainment) passed out of the House Commerce Committee and will be in the Finance Committee this Thursday. After Finance, it will still need to pass through Judiciary and Rules before going to the House floor.

Commissioner Jones would like more detail about how these bills will affect the NCEL, including operations, revenue, and expenses. Executive Director Mark Michalko will work with staff to prepare a summary of potential impacts and distribute to the Commission.

Gaming Legislation – Action Items

Commissioner Long brought forth the following motion that was unanimously approved by the Revenue Generating Committee and proposed for discussion and approval by the full Commission:

As each legislative session drags on, the activity can be fast and furious at the General Assembly, requiring the need for immediate action. As there are currently bills in play that would affect the lottery, we move that the Commission grant, for the remainder of the 2021 long session, the Executive Director the discretion and authority to address and respond to matters relating to the lottery before the General Assembly without being required to seek approval from the Commission. In exercising such authority, the ED and/or their designee shall use best efforts to ensure that 1) pending legislation will not have a negative impact on the North Carolina state lottery, and 2) all net revenues from gaming that is operated, managed, or regulated by the North Carolina state lottery is used for educational purposes. The ED or legislative liaison shall report such actions and provide updates on pending legislation to the Commission as soon as reasonably practicable.

No second is required. The motion was passed unanimously.

Operations & Personnel Committee Report

FY21 Executive Director Incentive – Information Only

Commissioner Whitaker shared with the Commission that the performance review process for the Executive Director (ED) was discussed, agreed upon, and carried out by the Operations and Personnel Committee.

After an extensive 360 degree process, the Committee approved an Exceeds Expectations performance rating, based upon the organization’s outstanding financial results and the comments of colleagues who participated in the process.

The ED is therefore eligible to participate in the employee incentive program that was agreed upon by the Commission in September 2020. As such, there is no need to introduce a separate motion to approve an incentive payment for the ED for FY2021.

FY22 Employee Incentive Program – Action Item

Commissioner Whitaker stated that the Operations and Personnel Committee unanimously agreed to approve the Employee Incentive Program for 2022 as distributed to the Commission. Commissioner Whitaker made a motion to approve the committee’s recommendation. A second is not required.

Commissioner Picerno asked for clarification regarding the numbers used in the incentive program. If they are based upon the Senate version of the budget, for example, what if the House version passes? Will this result in less money being returned to education? Mr. Jourdain explained that the number used is indeed the Senate’s version, but can be adjusted. The additional net revenue to education target must also be met for employees to receive incentive payments.

The motion passed unanimously.

Chairperson Adcock thanked Commissioner Whitaker and the committee for their work on the ED performance review process.

Executive Directors Report – Information Only

Mr. Michalko referred to Commissioners to the attachments sent in the meeting packet with regard to Contracts Over \$90,000 and the HUB Report. He had nothing additional to add on these topics.

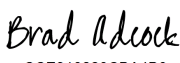
Other Business

Chairperson Adcock shared that he was invited as an NCEL representative to participate in a groundbreaking ceremony for a new elementary school in Harnett County built using \$10M of NCEL revenue.

Chairperson Adcock also shared that with the changes to the Commission as a result of expiring terms and new appointments, he has asked Commissioner Picerno to join the Executive Committee to replace a departing member. Commissioner Picerno agreed to join the committee.

Finally, Chairperson Adcock extended a welcome to Commissioners Joshua Malcolm and Ripley Rand, joining the NCEL for their first Commission meeting.

With no other business to discuss, a motion was made by Commissioner Picerno to adjourn, seconded by Commissioner Long. The motion passed unanimously and the meeting was adjourned at 11:56 a.m.

DocuSigned by:

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Chairperson

12/16/2021
Date