

# NORTH CAROLINA LOTTERY COMMISSION

September 12, 2007

## Meeting Minutes

*Commissioners in Attendance:*

John McArthur, Chair  
Max Cogburn – via Telephone  
Robert Farris  
Bridget Anne-Hampden  
Robert Appleton  
Secretary Bryan Beatty  
Edwin Speas

*Participating NCEL Staff:*

Tom Shaheen  
Carla Archie  
Robin Diehl  
Margaret Spindola-Bode  
Nikki Howard

*The meeting was held on Wednesday, September 12, 2007 at 2:00 p.m. in the Dr. Charles Sanders Board Room of the North Carolina Education Lottery Headquarters located at 2100 Yonkers Road, Raleigh, NC.*

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### **I. Introduction and Opening**

- Chairman McArthur called the meeting to order. He announced that all of the Commissioners have completed their mandatory ethics training, and that the Commission was one of only nine boards and commissions to do so.

### **II. Approval of Minutes**

- Chairman McArthur presented the minutes from the May 22, 2007 meeting of the North Carolina Education Lottery (NCEL) Commission. Commissioner Appleton moved to adopt the minutes. Commissioner Hampden seconded the motion. The minutes were adopted.

### **III. Finance Committee Report**

- Commissioner Hampden stated the Finance Committee reviewed the May Statement of Revenues, Expenses and Changes in Fund Net Assets and the year end close, and confirmed the NCEL made regular transfers to the Education Lottery Fund according to percent of total annual revenue as required in the Lottery Act. At close of year end, \$313,668,272 had been transferred to the Education Lottery Fund and the NCEL returned 35 percent of annual revenues to the Education Lottery Fund.
- Commissioner Hampden reviewed the July Statement of Revenues, Expenses and Changes in Fund Net Assets. The NCEL will transfer \$22,603,604 from July net revenues to the Education Lottery Fund in October.
- Commissioner Hampden informed the Commission of notification by the State Budget Director of a 6.5 percent rate increase in travel subsistence which is based on the Consumer Price Index.

The increase was approved by the Finance Committee and will be factored into the budget. Discussion followed concerning hotel costs being higher than the state per diem, in particular hotels in certain cities in state and out of state hotels. Mr. Shaheen confirmed that the NCEL did not exceed the budgeted line item for travel.

- Commissioner Hampden reported that the Committee had asked the staff to begin reporting to the Commission quarterly revenue trending analyses.
- Commissioner Hampden invited Mr. Shaheen to discuss the status of the NCEL after the large Powerball jackpot that exceeded \$300 million. Mr. Shaheen stated that one large jackpot had been factored into the NCEL budget. He reported that the NCEL had Powerball sales of over \$12 million that week.
- Commissioner McArthur asked Mr. Shaheen to discuss instant games sales. Mr. Shaheen noted that players believe the NCEL does not pay out as much in instant ticket prizes as South Carolina and Virginia. The legislature recently gave the NCEL flexibility in instant ticket prize payouts, and as players become aware of more competitive prize payouts on the newer games, sales should increase. New instant ticket games with higher prize payouts will begin in October and be out in full force by early spring.
- Commissioner Hampden reported the NCEL has had four audits this year, two financial audits, a security audit, and a performance audit. Commissioner Hampden congratulated the finance staff for their hard work on the audits.

#### **IV. Audit Committee Report**

- Commissioner Appleton reported that at the May Commission meeting, there was uncertainty over whether Tidwell Dewitt, a subcontractor for Delehanty Consulting, was required to be licensed as a CPA in North Carolina to work on the SAS70 Audit. He stated that Tidwell Dewitt did register with the NC State Board of CPAs, and a favorable service audit report was issued on G-Tech's system of internal controls. Due to the size of the report, the Table of Contents and Auditor's Report are provided for Commission review. The entire report is available upon request.
- Commissioner Appleton noted that Nikki Howard, Internal Auditor, provided the report of audit activity for the period. This included an instant ticket and end of game report; a review of random claims and payment files in regional offices; and a Raleigh regional office cash receipting audit. It was reported that 45 of 70 security audit recommendations have been closed and reviewed by internal audit. Most of the open recommendations pertain to training, establishing a security forum, and pending approvals of policy revisions.
- Commissioner Appleton informed the Commission that the Performance Audit group from the Office of State Auditor is on site. Once the full scope of their audit is determined, the Commission will request the Joint Legislative Committee of Governmental Operations accept the State Auditor's performance audit report as compliance with the Lottery Act biannual performance audit requirement.
- Commissioner Appleton noted that there continues to be slippage in maintaining the audit schedule. He noted that time spent responding to state auditor requests had delayed internal audit in their work. He also noted that the Key Performance Indicators (KPIs) for the NCEL are

on fiscal year and the audits are calendar years. The audit schedule may have been ambitious and the staff hours necessary in coordinating and responding to the security and performance audits were underestimated.

- Commissioner Appleton advised the Commission that the legislature passed three statutes during the recent session that may affect the lottery's audit function. These include State Government Accountability/Internal Control Act; Program Evaluation by General Assembly; and Internal Audit and Efficiency Review. The Audit Committee will report to the Commission when the impact of this legislation is known.

#### **V. Personnel Committee Report**

- Chairman McArthur reported that the Personnel Committee adopted revisions to the Paid Time Off (PTO) policies that make NCEL PTO policy consistent with other state personnel for retirement purposes.
- Chairman McArthur invited Margaret Bode, Human Resources Director, to summarize the revisions. Ms. Bode reported: (1) Teachers and State Employees Retirement System (TSERS) developed a formula for NCEL to annually calculate creditable service of sick leave bank (SLB) hours for retirement purposes to ensure equity between NCEL employees and regular State employees; (2) NCEL recognition of former state service for the calculation of SLB hours; and (3) NCEL acceptance of sick leave accrued at a former state agency for the calculation of retirement benefits. She reported the NCEL has received a letter from Mr. Williamson, Retirement System Director, accepting these revisions and putting them into a formal agreement.

#### **VI. Executive Director's Report**

- Mr. Shaheen presented the Key Performance Indicators and reviewed the line items. He pointed out that new instant games beginning in October with increased payouts should increase sales. Under Finance, AP disbursements by EFT are lower than anticipated due to the number of retailers that will not use electronic fund transfers. As the process is streamlined and becomes more efficient, the 65 percent goal should be reached. Mr. Shaheen also noted the number of external audits that NCEL has undergone have been more time consuming than anticipated, taking extra staff time to respond to auditors' questions, which has led to the internal audit indicator being behind schedule.
- Mr. Shaheen reported that the NCEL continues to recruit retailers as well as lose retailers due to change of ownerships, terminations for non-payment, and suspension of some retailers for the inability to meet the ADA requirements in their stores. Sixty new retailers have contracted with the NCEL since July 1. There are ongoing discussions with several store chains about becoming NCEL retailers. A goal of 400 new retailers has been set. The vending machines are in some stores, and the NCEL is working with G-Tech to convert them to read bar codes on state drivers' licenses to alleviate potential sales to underage players.

#### **VII. Legislative Update**

- Mr. Shaheen reported the General Assembly made changes to Section 18C-162 of the Lottery Act that gives the NCEL more flexibility in instant ticket prize payouts. With higher prize payouts, the percent of beneficiary return may be reduced, but the dollar volume of sales will go up, which will provide more funds for education.

### **VIII. Minority Participation Report**

- Ms. Archie, Deputy Executive Director of Legal/Security, presented a Minority Participation Update. As of June 25, 2007 staff demographics were 56 percent female; 44 percent male; 35 percent African American; 3 percent Hispanic, and 1 percent Asian.
- Ms. Archie reviewed minority outreach strategies and accomplishments in fiscal year 2007, which included conducting a minority business conference in August 2006; establishing an internal database of minority businesses interested in contracting with the NCEL; joining the Carolinas Minority Supplier Diversity Council and Women and Minority Business Enterprise Coordinators' Network; distributing our bid packages to all the minority business in our database; posting all major procurement opportunities on the NCEL website and state purchasing website; and attending four trade shows and other events of interest to minority businesses across the state.
- Ms. Archie noted that for fiscal year 2007, minority (minority and women) expenditures totaled 51 percent of overall NCEL spending, which did not include \$57,000 spent on sports sponsorships with historically Black colleges.
- NCEL is conducting a Minority Business Conference on September 21, 2007, at the Cameron Village Library in Raleigh.

### **IX. Other Business**

- Ms. Archie presented a revision to the introduction to the NCEL Purchasing Manual which mirrors the language in the Lottery Act that gives the NCEL flexibility in selecting vendors and ensures the maximum benefit to the State and the NCEL. After discussion and due consideration, Commissioner Hampden made a motion to adopt the language change as recommended. Commissioner Appleton seconded the motion. The motion was approved. Chairman McArthur requested an exception report and rationale be made to the Audit Committee when bids over \$90,000 are accepted that are not lowest cost.
- Nikki Howard, Internal Auditor, introduced Troy Givens, Information Systems Auditor. Mr. Givens has seven years' experience with the Office of the State Auditor, worked in public accounting and in local government, and has CPA and CISA certifications. The Commission welcomed Mr. Givens to the NCEL.
- Ms. Archie introduced Quan Kirk, Associate Attorney. Ms. Kirk worked for the Ohio Lottery for eight years as chief legal counsel. The Commission also welcomed Ms. Kirk to the NCEL.
- Chairman McArthur informed the Commission that Commissioner Linda Carlisle has submitted her resignation to the governor. A new commissioner is expected to be appointed.

There being no further business, Commissioner Appleton made a motion to adjourn the meeting. Commissioner Hampden seconded the motion. The meeting was adjourned.