

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, December 3, 2013

Commissioners in Attendance:

Keith Ballentine, Chairman
Alice Underhill
David Kirby
Jody Tyson
Barry Dodson
Courtney Crowder
Chris Shew
A.J. Daoud

Commissioners not in Attendance:

Doug Baker

Staff in Attendance:

Alice Garland
Nikki Howard
Lou Ann Russell
Bill Jourdain
Terri Avery

The North Carolina Education Lottery Commission meeting was held Tuesday, December 3, 2013 at 9:00a.m., 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 the 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 recognized two new Commissioners, both appointed by Governor McCrory: The Honorable Chris Shew, Sherriff of Wilkes County, and Mr. A.J. Daoud from Surry County.

Chairman Ballentine requested a motion to approve the minutes from the September 10, 2013 Commission meeting. Commissioner Dodson made a motion to approve the minutes and Commissioner Kirby seconded. The minutes were approved.

Chairman Ballentine announced that the format of Commission meetings will change from three (3) individual committee meetings with a full commission meeting, to one full commission meeting. The one full commission meeting will provide full opportunities for all commissioners to discuss and vote on all issues.

Operation and Personnel Report

Commissioner Jody Tyson presented the Operations and Personnel Report. A motion was made by Commissioner Crowder to approve the minutes from the September 10, 2013 meeting and Commissioner Kirby seconded. The minutes were approved.

An update on the Compensation and Classification study was provided by Alice Garland, Executive Director and Ruth Ann Eledge, CEO, Waters Consulting Group, Inc. Results and recommendations will be presented to the Commission for review and approval in January 2014. A potential date of January 22, 2014 was set.

Finance and Audit Report

Commissioner Barry Dodson presented the Finance and Audit Report. A motion was made by Commissioner Daoud to approve the minutes from the September 10, 2013 Finance and Audit Committee meetings and Commissioner Kirby seconded. The minutes were approved.

Mr. Collin Hill, partner at Cherry Bekaert, presented the results of the recently conducted financial audit for the fiscal year ending June 30, 2013. Mr. Hill reported that the NCEL's financial audit was a clean, smooth audit. He also reported there were no journal entry adjustments.

Bill Jourdain, Deputy Executive Director of Finance, Administration and Security presented financial reports for the month of October 2013 and the first four (4) months of FY2014. October 2013 ended with total assets of \$131.4 million, including \$52.3 million in cash, and \$57 million in annuity award investments. Accounts Receivables totaled \$14.7 million; \$11.4 million is net receipts from the gaming system to be collected by electronic funds transfer in the first week of November 2013. \$3.1 million from multi state prize fund is owed to the NCEL from MUSL for NC prizes won in Mega Millions and Powerball.

Total liabilities of \$131.4 million included \$28 million in outstanding prize awards and vender accounts payable. \$57 million in long-term annuity prize awards payable and \$39.6 million due to the Education Lottery Fund, as of the end of October 2013.

In the statement of revenues and expenditures, total operating revenue for the month of October 2013 totaled \$150 million. Tickets sales for the month of October 2013 totaled \$149.6 million, as compared to \$126.9 million in October 2012. That is a 17.9% increase over last year. Net revenue earned for education during the month of October 2013 totaled \$39.6 million. A 10.9% increase over October 2012.

Total revenue for the first four months of FY2014 totaled \$598 million. Tickets sales for the same four (4) months totaled \$596.2 million, a 16.7% increase over the first four months of FY2013. FY2014 sales are running 14% ahead of FY14 budget target. Total gaming expenses, including player prizes, retailer commissions and incentives, and gaming system services and licenses through October 2013 totaled \$412.2 million or 69.7% of total revenue. Total NCEL operational expenses including salaries and fringe benefits, advertising and marketing, and operational overhead totaled \$14 million or 2.3% of total revenue. The NCEL's administrative expenses are 4% of total revenue. Net revenue earned for the education lottery fund for the first four (4) months of 2014 totaled \$166.2 million. In October 2013, the NCEL transferred \$153.8 million to the education lottery fund.

Terri Avery, Director of Field of Sales, presented the RFP# LC-000045 Evaluation Committee Evaluation and Recommendation Report for the Sales Force Automation System and Related Services. The NCEL received two (2) proposals on or before the established deadline of October 31, 2013: Lapis Software Associates and Hudson Alley Software, Inc.

Taking into account all the scoring categories, Hudson Alley received the highest overall score. The members of the evaluation committee unanimously recommended Hudson Alley Software, Inc. to the Executive Director as the apparent successful contractor for the Sales Force Automation System and Related Services Contract. Commissioner Daoud made a motion to accept the report and award the contract to Hudson Alley, Commissioner Kirby seconded.

Nikki Howard, Director of Internal Audit presented the audit reports.

1. Final Internal Audit – Retailer Contracts. Ms. Howard stated the audit resulted in minor recommendations to improve controls and effectiveness.
2. Audit Plan. Ms. Howard presented the audit plan for the 2014 and 2015 calendar years. Commissioner Daoud made a motion to approve the audit plan. Commissioner Underhill seconded.
3. Quarterly Activity Report. Fieldwork for Purchasing and Accounts Payable is nearly completed. Planning for an audit of HR and the Payroll Department is underway. Internal Audit worked with the Security Department in the random number generated drawing for the Lucke-Zone drawings for the weekly drawings held during the past quarter.
4. An update was provided regarding the SOC 1 and SOC 2 audits. The incremental increase to change from the SOC1 to the SOC2 audit is \$18,000. Commissioner Daoud made a motion to approve the increase and Commissioner Dodson seconded. The increase was approved.
5. Internal Audit is following up on recommendations of the security audit. The confidential part resulted in twenty (20) recommendations and seven (7) suggestions. Sixteen (16) recommendations and suggestions are closed. The NCEL is making sufficient progress on the remaining items.

6. No changes were recommended regarding the annual review of the Audit Committee charter. Commissioner Daoud made a motion to continue the internal audit procedures. Commissioner Kirby seconded. The motion carried.

The Audit Charter and Internal Audit department recommend an annual confidential review with the Commission. Chairman Ballentine instructed commissioners that at the conclusion of the closed session with the Internal Auditor, the commission has legal issues to discuss that require them to stay in a closed session. The Commission entered closed session.

Executive Director Report

Executive Director, Alice Garland presented an update on the NCEL Subscription Service noting that since September, five (5) regional meetings with retailers have been conducted. All were positive meetings. Executive Director Garland provided a software batch update.

Lou Ann Russell, Deputy Executive Director of Advertising, Marketing and Communications presented the quarterly Advertising/Marketing report which consisted of an overview of the following:

- Powerball Hall of Fame promotion
- October First Tuesday scratch-off launch
- November First Tuesday scratch-off launch
- Holiday gift giving campaign – “Gift Something Good”
- Beneficiary Campaign
 - New campaign designed to drive viewers to dedicated URL to learn how their county has benefitted from NC lottery dollars.
 - www.Wealldidthis.com
- Lucke-Rewards Update
 - Celebrated 1st anniversary
 - Rewards program is huge success
 - 86 drawings
 - 271 winners
 - \$356,500 rewards cash prizes
 - \$4,406,000 second chance prizes
 - 100% of prizes claimed

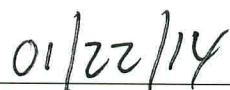
Executive Director Alice Garland presented information on contracts above \$90,000. She also presented the key performance indicators.

Chairman Ballentine noted that today would be Commissioner Dodson’s last day with the NC Education Lottery Commission. The Commission recognized Commissioner Dodson and thanked him for his dedicated service to the NCEL.

There being no other business, Chairman Ballentine adjourned the meeting.



W. Keith Ballentine, Commission Chairman



Date