

# North Carolina Education Lottery Commission Meeting

## Meeting Minutes

Tuesday, December 6, 2016

*Commissioners in Attendance:* Kim Griffin, Jr., Chairman  
Doug Baker (via conference call)  
Keith Ballentine (via conference call)  
Morgan Beam  
Buddy Bengel  
Amy Ellis  
Chris Shew  
Jody Tyson

*Commissioners not in Attendance:* Courtney Crowder

*Staff in Attendance:* Alice Garland  
Bill Jourdain  
Jaime Fuquay  
Frank Suarez, Jr.  
Mike Suggs

*The North Carolina Education Lottery meeting was held on Tuesday, December 6, 2016, at 10:00 a.m. at the NCEL headquarters located at 2100 Yonkers Road, Raleigh, NC.*

Chairman Griffin called the meeting to order and Commissioners stood for the pledge of allegiance. Former Commissioner David Kirby led the Commission in the pledge of allegiance. The Chairman reminded Commissioners 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 Griffin requested a roll call to ensure a quorum. Teri Riddle, Executive Assistant, called the roll. All Commissioners were present for the meeting except Commissioner Crowder. Commissioners Baker and Ballentine participated via conference call.

Chairman Griffin presented the minutes from the September 13, 2016 Commission meeting. Commissioner Tyson made a motion to approve the minutes subject to the following change under the Revenue Generating Committee report: *Committee Chairman Ballentine tabled the committee report until the December 2016 meeting at the request of the Chairman due to time constraints.* Commissioner Shew seconded. The minutes were unanimously approved.

Chairman Griffin recognized former Commissioners Alice Underhill and David Kirby. Their terms expired on August 31, 2016. The Chairman and Commissioners thanked them for their service to the Lottery and the state of NC. Chairman Griffin also recognized Jaime King Fuquay, Director of Government Affairs. Ms. Fuquay is leaving the NCEL after many years of service.

She was presented with a proclamation from the Commission thanking her for her dedicated service.

### **Finance and Audit Report**

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial update for October 2016 and the first four months of FY2017.

In the statement of net position, October 2016 ended with total assets of \$167.4 million, which included \$90.3 million in cash and \$63 million in annuity award investments. Accounts receivable totaled \$5.6 million. \$3.6 million represents net receipts from the gaming system to be collected via electronic funds transfer in November.

Total revenue for the first four (4) months of fiscal year 2017 totaled \$769.1 million. Ticket sales for the first four (4) months of fiscal year 2017 totaled \$767.4 million, a 7.5% increase or \$53.8 million over the same period of FY2016. Ticket sales are running 11.8% or \$20.5 million ahead of NCEL FY2017 budget target after four months of activity.

Net revenue earned for the education lottery fund for the first four (4) months of FY2017 totaled \$194.8 million or 25.3% of total revenue, an increase of \$19.8 million or 11.3% over the same period of FY2016. The total new revenue is running \$20.5 million or 11.7% of the estimated target for FY2017.

During the first four (4) months of FY2017 the NCEL initiated a transfer of \$217.3 million to the Office of State Budget and Management. The transfers represented new revenue of \$149.6 million from the first quarter of FY2017 which was applied to the education lottery fund, and \$67.7 million in surplus net revenue from FY2016 which was deposited into the lottery reserve fund as directed in budget legislation, HB1030. The amount added to the previous \$41 million transferred at the end of June brings the lottery reserve fund balance to \$109 million. Since inception, the NCEL has transferred \$4.7 billion to the state of North Carolina.

Mr. Jourdain also provided the Commission with an update on NCEL property renovations and moves.

Collin Hill, Engagement Partner with Cherry Bekaert presented the annual independent audit (year ending June 2016) of the NCEL finances. Mr. Hill reported that the NCEL's financial audit was a clean and smooth audit; and therefore, received the highest rating of "unmodified."

Mike Suggs, Director of Internal Audit, presented the Internal Audit report.

Completed Audits include:

- Continuous monitoring of IT Security controls (conducted every 6 months)
- Corporate Social Responsibility
- Responsible Gaming
- Retailer incentives and sales commissions
- Retailer recruitment

The performance audit is currently underway. Auditors will be conducting an assessment of other states that have the Keno and iLottery games. An independent assessment will be conducted to determine what type of revenue those games could generate for North Carolina. A

report will be ready in early 2017. Upcoming audits will include advertising and the annual audit of investigations and fraud.

The internal audit activity charter will be presented during the closed session.

### **Operations and Personnel Committee Report**

Committee Chairman Chris Shew presented the Operations and Personnel Committee report. He and Alice Garland, Executive Director, reported that the committee voted to approve the 2017 bonus program. Employee bonuses will be based on the performance of the NCEL during FY2017 as well as individual employees' performance evaluations. The bonus structure uses a tiered system based on performance goals. Commissioner Tyson made a motion to approve the bonus program and Commissioner Ellis seconded. The motion passed unanimously.

Committee Chairman Shew presented the committee's recommendation on the revision of NCEL policy 4.15, Attendance and Leave. Marbet Cuthbert, Director of Human Resources, explained that policy updates include eliminating compensatory time for employees, and eliminates the ability for exempt employees to earn on-call pay. An employee's anniversary date or merit increase date will no longer be changed as it relates to FMLA or voluntary shared leave. Commissioner Shew made a motion to approve the changes and Commissioner Beam seconded. The motion passed unanimously.

The last item for discussion from the committee was the retailer rules and regulations review. The committee recommended that retailers follow NCEL best practices which is that retailers or their employees should not purchase lottery tickets during their work shift. Additionally, it is recommended that retailers draft store policies that require employees to make lottery purchases from another clerk instead of purchasing from themselves. Commissioner Shew made a motion to accept the recommendation and Commissioner Tyson seconded. The motion passed unanimously.

### **Revenue Generating Committee Report**

Chairman Griffin noted that committee members are working to schedule a convenient time for everyone to meet. He expects a meeting in the near future.

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

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

- No advertising in October due to the election
- Four (4) new tickets launched in October 2016
- Holiday campaign and tickets launched in November
- Cash 5 promotion ends December 10<sup>th</sup>
- Testing for changes to Cash 5 will begin in coming months
- New \$30 ticket – Extreme Millions – coming in December
- First Tuesday campaign has been updated with new ads and now at POS locations
- Lucke Zone currently has 755,000 members and 112,000 mobile app downloads to date

Frank Suarez presented results of the brand tracker study to the Commission. This is an annual project to track awareness and perception of the lottery, in particular several games and

advertisements. One thousand (1,000) players and five hundred (500) Lucke-Rewards members were surveyed. Some of the study's key measures were highlighted in the presentation.

Tony Chung, Deputy Executive Director of MIS and Gaming Systems presented the conversion project status update.

Jaime King Fuquay, Director of Government Affairs, presented an update on the beneficiary project. She provided background information on the purpose of the beneficiary project and gave commissioners an overview of how the allocation of Lottery dollars has evolved over the years in North Carolina. She emphasized the NCEL has increased the amount of funds contributed to the state each year but the NCEL does not choose how the funds are distributed. Ms. Fuquay explained there is a gap between how much money is raised by the NCEL, how the state is spending the funds, and how that is communicated to the general public. She encouraged Commissioners to work with the new Director of Government Affairs to effectively communicate the Lottery's position.

Ms. Fuquay introduced the new Director of Government Affairs, Sarah Hardin. She encouraged Commissioners to work with Sarah to have conversations with Legislators about how Lottery dollars are distributed to education program in North Carolina.

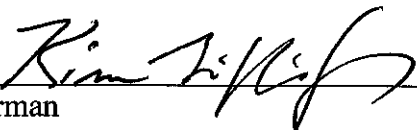
Alice Garland, Executive Director, presented the contracts over \$90,000 and the HUB report.

**Open Discussion**

Chairman Griffin announced the March meeting will take place in Raleigh at NCEL headquarters.

He also moved the commission into closed session to discuss a litigation update and conduct the annual confidential audit meeting. Commissioner Tyson made a motion to move into closed session and commission Shew seconded.

Being no further business, the meeting was adjourned.

  
Chairman

3-14-17  
Date