

**NORTH CAROLINA EDUCATION LOTTERY
COMMISSION**

May 22, 2007

Meeting Minutes

Commissioners in Attendance:

John McArthur, Chair
Linda Carlisle
Max Cogburn
Robert Farris
Bridget Anne-Hampden
Dr. James Woodward
Robert Appleton
Secretary Bryan Beatty
Edwin Speas

Participating NCEL Staff:

Tom Shaheen
Carla Archie
Robin Diehl
Sam Hammett
Lou Ann Russell
Nikki Howard

The Commission meeting was held on Tuesday May 22, 2007 at 2:00 p.m. in the Dr. Charles Sanders Board Room of the North Carolina Education Lottery Headquarters located on 2100 Yonkers Road, Raleigh, NC.

I. Introduction and Opening

- Chairman McArthur called the meeting to order. He reminded the Commission members of their duty to avoid conflicts of interest and appearances of conflict under The State Ethics Act. The members confirmed that no commission member has any potential conflict with any agenda items.

II. Minutes

- Chairman McArthur presented the minutes from the February 13, 2007 and the March 22, 2007 meetings of the NCEL Commission. Commissioner Farris moved to adopt the minutes. Commissioner Carlisle seconded the motion. The minutes were adopted.

III. Finance Committee Update

- Commissioner Hampden asked that Tom Shaheen, Executive Director present his recommendation regarding the Invitation to Bid (ITB) that was issued for Interactive Voice Response (IVR) Application and Related Services. Mr. Shaheen reviewed the

- evaluation process and recommended the IVR contract be awarded to Symago. Commissioner Hampden stated that the Finance Committee reviewed the recommendation in the Finance Committee meeting and concurs with the recommendation. Commissioner Hampden made the motion to accept Mr. Shaheen's recommendation. Commissioner Appleton seconded the motion. After discussion and due consideration, the motion carried.
- Commissioner Hampden asked that Mr. Shaheen present his recommendation regarding the ITB issued for Voice System Maintenance and Related Services. Mr. Shaheen reviewed the evaluation process and recommended the contract be awarded to Ronco. Commissioner Hampden stated that the Finance Committee reviewed the recommendation in the Finance Committee meeting and concurs with the recommendation. Commissioner Hampden made the motion to accept Mr. Shaheen's recommendation. Commissioner Appleton seconded the motion. After discussion and due consideration, the motion carried.
 - Commissioner Hampden informed the Commission that ALE made a presentation to the Finance Committee seeking reimbursement to cover a shortfall in salary-related expenses. She stated that the Committee had voted to deny the request; however, they do recommend increasing the amount paid to ALE in the next fiscal year. Secretary Beatty noted that ALE is mandated by law to enforce lottery laws and asked that the Commission reconsider the Finance Committee's vote to deny reimbursement. Extended discussion followed.
 - Commissioner Hampden made the motion that the Commission accept the recommendation from the Finance Committee regarding the request from ALE. This recommendation includes denying ALE's request for additional funding this fiscal year and increasing funding to ALE in the next fiscal year to support employee salary increases. Commissioner Cogburn seconded the motion. There was further discussion.
 - Commissioner Carlisle made the motion to amend the Finance Committee recommendation to provide ALE with additional funding in the amount of \$20,000+ to cover salary increases in the current year and to increase funding to ALE for salary increases in the next contract year. Commissioner Appleton seconded the motion. Commissioner Hampden accepted the amendment, and after discussion the commissioners approved the recommendation as amended by an 8 to 1 vote, with Commissioner Cogburn voting no.
 - Commissioner Hampden notified the Commission that Wray Ward Laseter (WWL) had approached the Finance Committee to request a recalculation of agency fees based on the fiscal year instead of their contract year. She informed the Commission that the Finance Committee had heard a presentation from Greg Campana, WWL Executive Vice President and Director of Client Services, and reviewed the contract with WWL. After careful consideration the Finance Committee voted to deny the request.
 - Commissioner Hampden made the motion that the Commission accept the recommendation from the Finance Committee to deny the request by WWL to recalculate the agency compensation based on a fiscal rather than the contract year. Commissioner Farris seconded the motion. After discussion and due consideration, the motion carried.

- Commissioner Hampden presented the March financials along with a quarterly report. She asked that Robin Diehl, Deputy Executive Director, Finance and Administration, review the April financials with the Commission.
- Commissioner Hampden presented the Fiscal Year 08 Budget. She invited Mr. Shaheen to address the Commission regarding the new positions requested. Mr. Shaheen explained the request for sales positions will be employed as required by the recruitment of new retail locations. He explained the request for an IT Auditor, noting that this position was approved by the Audit Committee. There is a request for the addition of two investigators. He stated there was the need to hire a website development manager to further enhance player communication. The final position request was presented by Ms. Archie for an additional attorney position. At present the Attorney General's office houses an attorney assigned to the NCEL. Ms. Archie explained that from a business standpoint the lottery would be better served by an additional in-house attorney. Good business practice would ensure that at least one attorney is present in the office at all times. Ms. Archie also explained that other similar size lotteries have larger legal staff in-house. This new position would replace the position currently held with the Attorney General's office. Discussion followed. Ms. Archie and Mr. Shaheen will meet with the Attorney General's office to agree on a transition plan.
- Commissioner Hampden made the motion that the Commission accept the budget with the caveat that ALE's allocation will be increased to support legislative salary increases. Commissioner Carlisle seconded the motion. After discussion and due consideration, the motion carried.

IV. Audit Committee Report

- Commissioner Appleton presented the Security Audit Report to the Commission. He noted that the NCEL received a highly favorable report from Delehanty Consulting, LLC and recommended that Chairman McArthur forward the report to the Governor, Legislature, Speaker, President Pro Tem and the head of Fiscal Research.
- Commissioner Appleton made the motion to accept the Security Audit Report. Commissioner Farris seconded the motion. The motion carried.
- Commissioner Appleton informed the Commission that Nikki Howard, Internal Auditor, has completed the Instant Tickets and Game Ending audits and Purchasing Card audits and the Audit Committee is satisfied with management's response. He stated that the Audit Committee has approved Ms. Howard's request to add an IT Auditor position.
- Commissioner Appleton discussed the issue regarding Tidwell and DeWitt, a CPA firm which performed some work on the SAS70 Audit as a subcontractor of Delehanty Consulting, LLC. He stated that Tidwell and DeWitt did not believe that they were required to file licensing documentation in North Carolina; however, the company is willing to work with the proper regulatory agencies to ensure they are licensed to do business in the State of North Carolina.

V. Personnel Committee

- Commissioner Cogburn made the motion to enter into closed session pursuant to N.C.G.S. § 143-318.11(a)(1) and (a)(6). The confidential nature of the (a)(1) discussion is based on N.C.G.S. § 126-22.
- The Commission returned to open session. Chairman McArthur stated that the Commission had reviewed Mr. Shaheen's performance evaluation, noting that the Commission is pleased with his performance and that of his management team. Chairman McArthur stated that the Personnel Committee recommended Mr. Shaheen receive a 5% salary increase with a one time out of base payment of \$5,781 to cover the period from his December 5 anniversary date and May 31, 2007.
- Commissioner Appleton moved to approve the salary increase and the one time out of base increase. Commissioner Farris seconded the motion. The motion carried.

VI. Other Business

- Sam Hammett, Deputy Executive Director, Sales presented an update to the Commission. He highlighted sales to date, new games being introduced and discussed the recruitment of new retail locations. He told the Commission that the sales representatives are training all retailers on selling the NCEL games and emphasizing selling tickets to minors is illegal.
- Lou Ann Russell, Deputy Executive Director, Sales/Marketing presented all current television commercials to the Commission.
- Mr. Shaheen presented the Key Performance Indicators by reviewing the line items with the Commission. He expanded on the sales discussion by sharing with the Commission what sales may possibly look like with a legislative decision to reduce the statutory return percentage. He reiterated the fact that the lottery is a business based on volume sales and increases in beneficiary returns as a result of increasing prize payouts would take time to build.
- Secretary Beatty applauded the NCEL for its work in partnering with the Amber Alert program.
- Chairman McArthur reminded the Commissioners of their duty to attend mandatory ethics training provided by the state.

The meeting was adjourned.

Approved:

John R. McArthur, Chairman

Date