

**North Carolina Education Lottery
Commission Meeting**

Meeting Minutes

Tuesday, June 3, 2014

Commissioners in Attendance: Keith Ballentine, Chairman
Alice Underhill
David Kirby
Amy B. Ellis
Courtney Crowder
Chris Shew
A.J. Daoud

Commissioners not in Attendance: Doug Baker

Staff in Attendance: Alice Garland
Caryl James
Bill Jourdain
Walter Ingram
Mike Suggs

The North Carolina Education Lottery Commission meeting was held Tuesday, June 3, 2014 at 9:30am, 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 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 presented the minutes from the March 11, 2014 Commission meeting. Hearing no suggested changes, Commissioner Daoud made a motion to approve the minutes as written and Commissioner Kirby seconded. The minutes were approved.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial report for the month of April 2014 and the first 10 months of FY14. In the statement of net position, April 2014 ended with total assets of \$142.3 million, which included \$64.3 million in cash and \$56 million in annuity award investments. Accounts Receivables totaled \$13.6 million, \$10.5 million represents net receipts from the gaming system to be collected by electronic funds transfer in May, and \$2.7 million for multi-state prize funds owed to the NCEL from the multi-state lottery group for NC prizes won in Mega Millions and Powerball.

Total liabilities of \$142.3 million included \$36 million in outstanding prize awards and vendor accounts payable, \$56 million in long-term annuity prize awards payable, and \$42.8 million due to the Education Lottery fund as of April 30, 2014.

In the statement of net revenues, expenses, and changes in net position, operating revenue for the month of April 2014 totaled \$165.6 million. Tickets sales for the month of April totaled \$165 million, as compared to \$149 million in April 2013, a 10.9% increase, or \$16 million. Net revenue earned for education in the month of April totaled \$42.8 million, a 6% or \$2.5 million increase over April 2013.

Total operating revenue for the first 10 months of FY14 totaled \$1.53 billion. Ticket sales for the first 10 months of FY14 totaled \$1.529 billion, an 11.2% increase, or a \$153.6 million increase over the first 10 months of FY13. FY14 sales are 7.8% or \$153.6 million ahead of the original budget target. Total gaming expenses, including player prizes, retailer commissions and incentives, and gaming systems services and licenses totaled \$1.076 billion, or 70.2% of total revenue. NCEL operational expenses which includes salaries and fringe benefits, advertising and marketing, and operational overhead totaled \$35.6 million, or 2.3% of total revenue. The NCEL administrative expenses totaled \$62.3 million or 4.06% of total revenue. Net revenue earned for the Education Lottery fund for the 10 months of this fiscal year totaled \$419.9 million or 27.4% of total revenue; an increase of \$30.5 million or 7.8% over 2013. Since inception, net proceeds transferred to the State of North Carolina totaled \$3.3 billion.

Mr. Jourdain presented the revised proposed budget for consideration. Commissioner Daoud questioned the proposed expenditure of approximately \$200,000 for the video conferencing system upgrade. Mr. Jourdain explained that the video conferencing upgrade is to make meetings and trainings more efficient with regional office employees and vendors, and potential cost savings with travel expenses. After much discussion, Commissioner Kirby made a motion to adopt the budget and Commissioner Underhill seconded. Commissioner Daoud opposed the budget. The budget passed.

Financial System Award Recommendation

Mr. Jourdain presented information to the Commissioners regarding meetings NCEL representatives held with the Office of State Budget and Management (OSBM) and the Office of the State Controller (OSC) regarding the NCEL's need to move to a new financial accounting system. In January 2014, the NCEL received written approval from the OSC to move forward with conducting a public procurement process to acquire a new financial accounting system.

On March 13, 2014, the NCEL issued a RFP for a fully integrated financial accounting system solution and related services. The deadline to submit proposals was May 8, 2014. The NCEL received one proposal: Crowe Chizek, LLP. The evaluation committee, as selected by the Executive Director, completed the entire evaluation process on Crowe Chizek, LLP and recommend to the Executive Director and the Commissioners that Crowe Chizek, LLP be designed the apparent successful contractor. Commissioner Daoud made a motion to designate Crowe Chizek, LLP as the apparent successful contract for contract award. Commissioner Kirby seconded. The motion carried.

Internal Audit Reports

Mr. Mike Suggs, Director of Internal Audit, presented the internal audit reports. Internal Audit is currently working on three (3) audits: tax reporting, draw game validation, and instant ticket validation. The Payroll and Human Resources Audits have been finalized. These audits resulted in minor recommendations to improve controls and effectiveness. Mr. Suggs also reported on external audits.

Delehanty Consulting, LLC is currently under contract to perform the NCEL's biannual performance audit. Preliminary work is underway.

Cherry Beckaert will begin the NCEL's annual financial audit. Preliminary work will begin later this month.

GTECH external auditors have been working with NCEL staff on the SOC1 and SOC2 audits. Work should be completed by the end of June.

Operations and Personnel Report

Commissioner Tyson presented the Operations and Personnel report. He reported that the Operations and Personnel Committee met prior to the full Commission meeting to discuss critical positions proposed in the new FY2014-2015 budget: Software Quality Assurance Analyst and a Prize Analyst. Following the discussions, the committee recommended to the full commission to include the designated positions in budget proposal. The committee also discussed moving forward with proposed changes to the HR policy 4.17 Recruitment Selection. Caryl James, Director of Human Resources, presented information on proposed changes to the policy to the Commission (full policy is provided in Commission packet). Commissioner Tyson made a motion to accept the changes as written and Commissioner Daoud seconded. The motion passed and the changes were adopted.

Ms. James presented information regarding the organizational study. On June 11th, a meeting will be held to present information to NCEL Directors and DEDs regarding the study. The goal is to have a recommendation ready for presentation to the Commissioners at the September 2014 meeting.

Mr. Walter Ingram, Director of Sales Development, presented the Retailer Advisory Board Charter to the Commission for their approval. Commissioner Daoud made a motion to accept the charter and Commissioner Kirby seconded. The Charter was approved.

Executive Director's Report

Frank Suarez, Jr., Deputy Executive Director of Brand Management and Communications, presented the quarterly Marketing and Advertising update for the fourth quarter.

- The new add-on game, EZ Match, has been very successful (27% of Cash 5 sales are from EZ Match).
- The Caesars instant ticket game launched in April and has performed very well – it is being reordered.
- The Hot 5's Series launched in May and is very high performing – these games are also being reordered.
- Hot Summer second chance promotion will be repeated this year, and will include the Hot 5's series.
- Jackpot suite of tickets will kickoff big instant scratch off (ISO) launches in the new fiscal year.
- Digital beneficiary ads are being shown.
- The NCEL 200 race took place on May 16 - which produced the NCEL's 2nd highest ticket sales since the sponsorship began.
- The NCEL "It's Fun To Play" tourism program will focus on the NC coast.
- The Lucke-Zone has 479,000 members as of May 2014.
- The NCEL received 25 million ticket entries as of April 2014 through the Lucke- Zone.

Alice Garland, Executive Director, presented the Key Performance Indicators to Commissioners and the contracts over \$90,000. She also announced progress has been made with Cherokee Tribal leaders regarding the NCEL's opportunity to sell lottery tickets on the Boundary.

The Gaming System Request for Information (RFI) has been issued. Any vendor that responds will be given an opportunity to show their processes on providing gaming system services. NCEL staff and Commissioners will have the chance to test all equipment and ask questions.

Executive Director Garland presented information about the Gaming System Coordinator position. She announced that Deb Doty, Deputy Executive Director of MIS and Gaming Systems, would be resigning from her position as Deputy Executive Director of MIS and Gaming Systems, and will transition to a part time position as the Gaming System Coordinator. The position will be project specific and part-time. Once a gaming vendor is chosen, the position will end. Ms. Doty has over 30 years of lottery gaming experience and has been a tremendous asset to the NCEL over the years. Her knowledge and experience meets the requirements for the position.

Executive Director Garland provided an update on the National Game and explained how the game will work. It will be a traditional jackpot game with a cap on the jackpot ceiling. There will be multiple guaranteed \$1 million winners and televised game show involving Monopoly properties. The show is set to launch in February 2015. Ticket sales for this game will begin on October 19, 2014 with 22 states participating initially. NC is one of the 22 states participating.

Chairman Ballentine presented the NCEL Commission Charters, including the Operations and Personnel Committee and the Audit and Finance Committee, as well as the full Commission Charter to Commissioners. Charters have been updated recently and need commission approval. Commissioner Kirby made a motion to accept the charters as written and Commissioner Tyson seconded. The charters were approved.

Being no further business, the meeting was adjourned.



W. Keith Ballentine, Commission Chairman

9/16/14

Date