

**North Carolina Education Lottery
Commission Meeting
WebEx
Meeting Minutes
Tuesday, December 14, 2021**

Commissioners in Attendance: Brad Adcock, Chairperson
Jason Roth
Joshua Malcolm
Nick Picerno
Nigel Long
Pamela Whitaker
Randy Jones

Staff in Attendance:

Mark Michalko	Bill Jourdain
Billy Traurig	Hayden Bauguess
Joe Cosgriff	Joe Norman
Marbet Cuthbert	Michelle Freeman
Mike Suggs	Tony Chung
Randy Spielman	Reggie Barnes
Susan Singley	Stacy Askew
Tami Wiggs	Terri Avery
Van Denton	Walter Ingram
Molly McClure	

Participants: Benjamin T. Spangler,
Assistant Attorney General, Department of Justice

April Adams, CPA
Albert Ong, CPA
Cherry-Bekaert, LLP

The North Carolina Education Lottery meeting was held on Tuesday, December 14, 2021, at 11:00 a.m. via Webex.

Chairperson Brad Adcock opened the meeting, and greeted all Commissioners and meeting attendees.

Roll call of the Commissioners was taken. Commissioners Jody Tyson and Ripley Rand were absent; all other Commissioners present.

Billy Traurig, Chief Legal Officer, read the remote meeting announcements.

Chairperson Adcock read the state ethics announcement.

Attendees recited the Pledge of Allegiance.

Approval of Minutes

Chairperson Adcock asked Commissioners to review minutes of the September 21, 2021 meeting and make a motion to accept the minutes. A motion was made by Commissioner Pamela Whitaker to approve the minutes. Commissioner Nick Picerno seconded the motion. The motion passed unanimously.

Finance & Audit Committee Report

2021 Audit Wrap Up

April Adams, CPA with outside auditor Cherry Bekaert LLP, presented a report to the Commission regarding the NCEL's annual external financial audit.

The audit revealed:

- No significant changes in accounting policies throughout the year; no audit adjustments; full cooperation from management.
- No significant deficiencies or material weaknesses.

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration, and Security, thanked and congratulated Ms. Michelle Freeman, Director of Finance, and the entire finance & accounting team on this result.

Financial Update

Mr. Jourdain presented a financial update to the Commission.

Financial Review: Fiscal Year 2022 to Date (through October 31, 2021)

- Total assets of \$110M which include \$57M in cash, \$87M in annuity award investments, and accounts receivable of \$33M
- Total liabilities of \$239M including \$28M in outstanding prize awards, \$87M in annuity awards payable, and \$74M due to the state for education
- Ticket sales are \$87.8M ahead of last year, an increase of 7.4%, and \$207.3M ahead of original approved budget (+19.5%)
- Total revenue in the four-month period was \$1.271B with total expenses of \$942M, or 74.1% of revenue. Prizes accounted for \$828M of expenses, retailer commissions \$87M, and gaming systems & licenses \$27M. Administrative expenses are \$25M, or 2% of revenue.
- Cash transfers to Office of State Budget and Management total \$353.2M as of December 8.
- Lottery Reserve Fund totaled \$46.8M as of December 8; this meets the statutory target.
- \$8.6B in total funds transferred to the state since inception.

Fiscal Year 2022 Budget Revision

After the NCEL Commission approved the FY 2022 budget at the June meeting with a revenue target of \$769.6M, the state legislature proposed and the governor subsequently signed a budget increasing the target to \$802M. Specifics of the revised budget include:

- Reduction of operational spending from 8% of revenue to 5%. Year to date our operational spending is at 4.07%, which is below both this legislative target and our budgeted number as well. The 1% advertising restriction has been removed.
- A one-time bonus payment of \$1000 for all employees, with an extra \$500 for those whose base salary is under \$75,000. Total bonus cost is \$491,500.
- An across the board salary increase of 2.5%. This was anticipated and was included in original budget.

We require a daily sales average of \$9,648,500 to hit the revised target. Our year-to-date daily average sales are currently \$10,295,550. This new target is 4.16% ahead of the original budget; however, we are currently running 6.71% ahead of the revised target.

The new budget means a \$32,435,000 increase in the net proceeds to education.

Under our current budget, our operating expense target is 4.51% of revenue, which is safely under the new lower target. Commissioner Jason Roth asked if this number is lower than under the new budget; Mr. Jourdain confirmed that it will be around 4.6%. He will locate and share the precise number with the Commission.

Commissioner Randy Jones stated that this new 5% target means we will need to keep a close eye on advertising and marketing budgets.

Commissioner Roth made a motion to approve the revised budget. The motion does not require a second because it was passed out of the Finance & Audit Committee Meeting. The motion passed unanimously.

Internal Audit Updates

Mike Suggs, Director of Internal Audit, presented findings from three recently completed audits.

1. Audit of Security Operations and Physical Security. The period reviewed was June 2019 through November 2021. Seven small procedural issues were identified and resolved, but overall the findings were that our procedures and policies are adequate. High points of the audit include:

- Well-developed operations manual
- Employees who are knowledgeable about security practices
- An industry-leading draw process

2. Audit of Security Investigations and Fraud. The period reviewed was June 2019 through November 2021. The audit found that NCEL's controls are adequate and have been sufficiently designed to mitigate potential risk and fraud. High points include:

- Well-developed investigations procedure manual
- Good working relationship with local law enforcement & NC Sheriff's Department
- Annual lottery security symposium conducted for local law enforcement agencies
- Strong controls in place to investigate lottery retailer owners and employees who claim prizes

3. Audit of Retailer Licensing and Renewal. The period reviewed was June 2020 through November 2021. NCEL performs this audit regularly to ensure that retailers are reliably adhering to all our procedures. This involves a review of retailer applications and renewals, credit checks, and installation and maintenance of equipment. The audit found that NCEL's controls appear to be adequate and have been sufficiently designed to mitigate potential risk. High points include:

- Very well established and documented procedures within the retailer admin department
- Industry leader in retailer ADA compliance
- Responsible gaming training for all retailers
- Good coordination with lottery vendors

Risk Assessment and Audit Plan for 2022

Mr. Suggs presented to the commission the Risk Assessment and Audit Plan for 2022, in which the Internal Audit Department details its plans for 14 audits in 2022. This can be adjusted based upon resource availability or changing needs. Commissioner Roth made a motion to approve the Plan as this was previously approved in and advanced from the Finance & Audit Committee. No second is required. The motion passed unanimously.

Internal Audit Activity Charter

The NCEL's Internal Audit Activity Charter is modeled after an international framework. There are no changes in the document since last year; however, the Commission is required to approve this on an annual basis. Commissioner Roth made a motion to approve the Charter as this was previously approved in and advanced from the Finance & Audit Committee. No second is required. The motion passed unanimously.

Revenue Generating Committee Report

Brand Management Update

Susan Singley, Director of Advertising and Interim Deputy Executive Director of Brand Management, presented a Brand Management Update to the Commission.

Ms. Singley reviewed the items which were presented to the Revenue Generating Committee, which included:

- Annual NCEL advertising calendar and budget (no changes)
- Marketing community events
- Communications community relations activities, including the NCEL's Responsible Gifting holiday campaign

October Highlights

- Spectacular Riches \$25 scratch-off launch with accompanying social media advertising campaign was very successful.
- College Foundation Partnership for FAFSA: NCEL helped to promote FAFSA Day drive-through event on October 23.
- Fast Play \$20 launch: This game's top prize is 100% of the progressive jackpot + \$200,000. The launch was supported by a major advertising and social media focus for the month, ending with 7M impressions.

November Highlights

- Launch of holiday scratch-offs: 6 new games, with advertising and social media focused on players sharing holiday traditions like baking and decorations. Over 5700 players interacted with us on this campaign.
- Bigger Spin Live Winners on November 17 (two winners, \$400,000 & \$900,000). Video of spins appeared on broadcast TV, social media, and the NCEL website.

- Responsible Gifting campaign: This is an annual campaign which is part of NCEL's Level 4 Responsible Gaming commitment. This year we reached over 4 million impressions. Players who clicked through to the NCEL website were given an extra bonus in their Lucke-Rewards accounts.
- Black Friday Digital Promotion: One-week promotion to raise awareness about digital gaming, with \$10 off promo code. Ended with more than 5700 promo code redemptions.

December Highlights

- 4 new games with new POS, but advertising will still largely focus on holiday games launched in November.
- Carolina Keno Campaign beginning after the holidays.

Product Development & Digital Gaming Update

Randy Spielman, Deputy Executive Director of Product Development & Digital Gaming, presented an update to the Commission.

Scratch-off Game Review

- October
 - Featured Lucky 7's (\$1) and Spectacular Riches \$25 Game launch
 - Spectacular Riches is NCEL's second-ever \$25 game and has no break-even prize; the lowest prize level is \$40. This unique proposition sets it apart from other price point offerings and the game has been very well received, leading to a year-over-year scratch-off sales increase of 11% in October.
- November
 - 6 holiday games were launched in November at \$10 and \$20 price points. The \$10 Merry Money Blowout game sold out in 5 weeks, our best-selling holiday game ever. Year over year, November scratch-off sales were up 15.7%.
 - Bigger Spin Game launched September 3. This is a \$10 ticket with a digital reveal component; players don't know what they've won until they go online or to a retailer. 58% of winners are participating via digital engagement, and so far we have had two big winners invited to the live show.

Impact of Multi-State Game Changes

- Lucky for Life: Changed to daily drawings on July 19th. Retail sales +55%, online +81%. +\$285,000 per week
- Powerball: Added a Monday drawing on August 23rd. Retail sales +29%, Online +46%. +\$720,000 per week.
- Not all of the increase is completely incremental; we estimate an 8-12% cannibalization of Cash 5 game (to be expected).
- Overall sales much higher than expected, especially with Powerball.

Fast Play: Additional \$20 price point added with a prize of 100% of Jackpot + \$200,000. The idea is to make lower jackpots more attractive, and it seems that players are responding positively. This option has been 40% of Fast Play sales since introduction. Plan to add another \$20 game in January.

Digital scorecard FY22 Q2

- Revenue \$12.6M, up 40% or \$5M. 20% of total sales. Lucky for Life is highest proportion of sales and most growth.
- OLP Players: 297,000, up 15,800 this quarter to date. Monthly average players of 91,500.

Commissioner Jones noted the significant early impact of game changes that show retail sales are increasing along with online sales. Commissioner Nigel Long agrees and congratulates the team on the \$10 holiday scratch off and \$20 Fast Play game which have resulted in significant growth of both online play and retail sales.

Sales Update

Terri Avery, Deputy Executive Director of Sales, provided a sales update to the Commission.

- Holiday Ticket Sales: \$104.7M as of last week. There are three weeks of inventory remaining in the field.
- New vending equipment: The sales organization spearheaded a game touch draw rollout of equipment that was in the warehouse. New machines were distributed to high volume Keno retailers with an average sales volume of \$151,200.
- Quad Day: On November 13 the Pick 4 winner numbers were 0000, resulting in a payout of \$10.3M, our highest ever. Claims centers statewide processed 1370 players on the first day and 2127 in the first week. (Normal volume for all games is ~1000 a week).

Executive Directors Report

Executive Director Mark Michalko presented an update to the Commission.

Contracts over \$90,000. The usual report has been distributed to Commissioners; there were no questions.

HUB Report and Minority Spend. 25.9% of our vendor spend is NC HUB Certified with another 5.9% Minority Businesses, but not certified. Additional information is being gathered from Cactus and Neo Pollard and more detail will be provided in future meetings.

Beneficiary Program Updates. Director of Corporate Communications Van Denton presented an update to the Commission on this topic.

- The recently passed state budget made some changes to our beneficiary programs.
- School staff, North Carolina Pre-K funding, and transportation programs have not changed.
- Two dramatic changes: School construction and financial aid programs.
 - School Construction
 - “Repair and Renovation” is a brand new fund becoming available this year.

- The new Renovation and Repair fund provides \$300,000 to all 100 counties in the first year and \$500,000 to all 100 counties in the second year.
- At one time, the School Construction category was capped at \$100M a year, which ended up at one time being about 17% of expenditures. The legislature committed to getting this back up to 40% by 2029. Over the next two years, with these new allotments + our surplus from last year, \$812M will be available for school construction.
- Bigger grants to counties will fund an entire new school for the first time (up to \$30M for elementary, \$40M for junior high, \$50M for high school)
- More flexibility to use the money for additions, repairs, and renovations.
- More counties will be eligible.
- Financial Aid Programs: Moving separate scholarship programs (NC Education Lottery Scholarships and UNC Need-Based Grants) under one new program, Scholarship Reserve Fund for Public Colleges and Universities (\$41.2M total)

Mr. Michalko commented that these changes are significant and important. The simplification of funding categories makes it easier for us to communicate and demonstrate how our work directly benefits education.

Commissioner Whitaker asked if it would be possible to direct some NCEL money to food and nutrition services for needy children. Mr. Denton responded that the General Assembly is the one who makes the decisions, and if the Commission desires to direct funds to these programs we can ask Hayden Bauguess, Director of Legislative Affairs, to discuss this with legislators.

Legislative Update

Mr. Bauguess presented an update to the Commission regarding the latest activities of the General Assembly.

The General Assembly adjourned on Friday, December 10, and announced their intention to formally reconvene on December 30. However, Mr. Bauguess does not expect them to actually take up work again until Wednesday, January 5. Their stated primary concerns will be veto overrides, redistricting, and other pending legislation.

There are currently lawsuits pending regarding the proposed redistricting that was completed last month. The North Carolina Supreme Court has scheduled the trial courts arguments for January 3 and 5 on this topic, with closing arguments January 6. They have instructed the trial court to issue its decision by January 11. Mr. Bauguess expects that the General Assembly will stay in session until at least one week after this date to follow up on any issues that may result from the decision. Next spring's primary elections have been pushed to May 17 as a result of delays in finalizing the redistricting.

Commissioner Roth made a motion to enter closed session for the next agenda item, the annually required Closed Internal Audit Session. The motion was seconded by Commissioner Picerno and passed unanimously.

After the closed session concluded, the open meeting was reconvened with Commissioners Adcock, Jones, Picerno, Malcolm, and Roth present. Commissioners Whitaker and Jones were absent.

With no other business to discuss, a motion was made by Commissioner Malcolm to adjourn, seconded by Commissioner Picerno. The motion passed unanimously and the meeting was adjourned at 1:19 p.m.

DocuSigned by:

Brad Adcock

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Chairperson Brad Adcock

3/30/2022

Date