

**North Carolina Education Lottery  
Commission Meeting**

**Meeting Minutes**

Tuesday, September 10, 2013

*Commissioners in Attendance:*

Keith Ballentine, Chairman  
Robert A. Farris, Jr.  
Alice Underhill  
David Kirby  
Jody Tyson  
Barry Dodson  
Courtney Crowder  
Doug Baker

*Staff in Attendance:*

Alice Garland  
Lou Ann Russell  
Bill Jourdain

*The North Carolina Education Lottery Commission meeting was held Tuesday, September 10, 2013 at 12:30p.m. at NCEL headquarters located at 2100 Yonkers Road, Raleigh, NC.*

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**Opening and Approval of Minutes**

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 welcomed the newest Commissioner, Douglas Baker. Chairman Ballentine then recognized the immediate past Chairman, Robert Farris, Jr. He thanked Mr. Farris for his commitment and dedication to the NCEL over the years. Chairman Ballentine and Executive Director Garland presented Mr. Farris with a framed newspaper article featuring Mr. Farris as well as dedicating a conference room after him.

Chairman Ballentine presented the minutes from the June 4, 2013 Commission meeting for approval. As there were no changes, Chairman Ballentine requested a motion to approve the minutes. Commissioner Dodson moved that the minutes be approved and Commissioner Farris seconded. The minutes were approved.

Chairman Ballentine randomly chose the NCEL Employee of the Year from the quarterly recipients of employee recognition. This year's winner is Crystal Brown. Crystal works in the Retailer Contracts section.

Chairman Ballentine discussed the retailer dispute resolution appeal filed by former retailer, Mr. Donald Mace on behalf of Kwik Stop 2 & 4. The commission voted to affirm the Executive Director's Decision to deny the reinstatement of Mr. Mace's Retailer Sales License.

**Audit Committee Report**

Commissioner Underhill presented the Audit Committee report:

- Internal audits for Cash and Accounts Receivables as well as Instant and Draw Game ticket Validations were completed. Only minor recommendations resulted.
- External Audits were completed. No relevant exceptions were reported.
- SOC1, Type II report of GTECH was issued.
- Delehanty Consulting issued a security audit in June. The audit resulted in 20 recommendations and 7 suggestions.

Commissioner Underhill made a motion that the Delehanty Consulting report be accepted by the full commission. Commissioner Tyson seconded. The report was accepted.

- Field work for Retailer Contracts is underway.
- Purchasing and Accounts Payable audit planning is underway.
- End of game processing for 16 games that ended in August is complete.
- Ticket reconstruction reconciliation has been performed.
- Internal Audit participated in random number generator drawings for the Lucke-Zone drawings.
- Internal Audit Act has been amended to include the NCEL Commission.

### **Operations and Personnel Report**

Commissioner Tyson presented the Operations and Personnel report. He noted that changes to several Human Resources policies were made:

- 4.03 Alcohol and Drug Free Policy – updated language
- Delete the 4.09 Pre-Employment Policy due to redundant language in 4.17
- 4.10 PTO Director and Above Policy – updated language
- 4.17 Recruitment and Selection Policy – updated language

Commissioner Tyson made a motion that the recommendations that these policy changes be accepted by the full Commission. Commissioner Underhill seconded. The policy changes were accepted.

The compensation and classification study will be underway beginning September 11, 2013.

### **Finance Committee Report**

Commissioner Dodson presented the Finance report. For the period ending June 30, 2013, revenue was \$1.695 billion, \$93 million above the preceding year. \$478.5 million was transferred to the State for educational purposes. The NCEL spent 2.5% of revenue to cover operational costs. For July 2013, total revenue was \$145.4 million, an 11.6% increase over the same period last year.

### **Executive Director Report**

Van Denton, Director of Communications provided the Commission with the following information:

- Update on the responsible gaming program.
- Smith Worth, NCDHHS, Division of Mental Health, Developmental Disabilities & Substance Abuse Services, provided the Commission with an annual report on the NC Problem Gambling Program.

Lou Ann Russell, Deputy Executive Director of Marketing, Advertising and Communications presented the Quarterly Marketing report that included details on:

- “First Tuesday” commercial update. First Tuesday of each month is launch day for new scratch-off tickets. Campaign has been very successful.
- Beneficiary update – spots will roll on WRAL.COM and will feature a county school superintendent as well as a NCEL scholarship recipient.
- Teacher of the Week slots will continue on WRAL, WITN and WLOS.
- Powerball national promotion will include incentives and jackpot awareness. Power Play changes will occur in January 2014.
- New branding and awareness campaign.
- Pro Football Hall of Fame® Ultimate Tailgate Party promotion.
- NC Promotions include awareness at the October 9<sup>th</sup> NASCAR race at Charlotte Motor Speedway.
- Twelve colleges and universities will receive NCEL sponsorship.
- Professional and minor league sports teams’ negotiations are complete.
- There are 13 fairs and festivals being held during the Fall 2013 season. Events are typically well attended and sales are usually strong.

Bill Jourdain, Deputy Executive Director of Finance, Administration and Security presented the Fiscal Year 2013 Summary:

- Ninety-nine percent (99%) of revenue is from ticket sales
- Total revenue from all sources was \$1.695 Billion
- Retailer Commissions totaled \$118.9 million
- Lottery prizes totaled just over \$1 billion

- Gaming system services totaled \$27.9 million
- Salaries, wages and benefits were just over 1% of revenue
- Advertising totaled \$15.3 million (under mandated 1% of revenue)
- Administrative expenses totaled \$11 million
- \$478 million was transferred to the state of NC for education

Jaime King Fuquay, Director of Governmental Affairs presented the legislative update:

- Many legislative items affecting the NCEL during the past session
- Governor's proposal to cut NCEL advertising dollars by 50%, and proposed cuts to NCEL's marketing budget and personnel were not included in the final state appropriations act.
- The formula for how lottery dollars are spent by NC has changed:
  - 45.8% to teacher salaries in K-3
  - 15.7% to Pre-K
  - 20.8% to public school building capital fund
  - 6.3% to Education Lottery scholarship
  - 2.2% to UNC Need-Based Financial Aid
  - 6.8% to UNC Need-Based Financial Aid Forward Funding Reserve
  - 2.4% to digital learning
- A similar formula will stay in place for FY2015.
- Original allocation language in NC State Lottery Act (Chapter 18C) was removed in this year's state budget, and new language simply states that lottery dollars will be used "for education related purposes" beginning in FY2016.
- Honest Lottery Act (HB156) passed the House in April, making the crossover deadline. HB 156 will be eligible for debate during the 2014 legislative short session.
- The NCEL requested change to the NC State Lottery Act pertaining to potential contractor's bidding requirements was included in the final budget language.

Alice Garland, Executive Director, provided an update on Subscription Service:

- Service will go live on or about October 28
- Spending limits will be in place
- Players have the ability to self-exclude for a set duration or permanently
- Subscription services will be available via Lucke-Zone
- Identity/Age verification and geolocation processes will be in place
- MUSL will certify that the program meets all MUSL policies and rules

Alice Garland presented additional information:

- Key Performance Indicators
- update on draw game research
- contracts over \$90,000

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

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W. Keith Ballentine, Commission Chairman

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Date