

STATE OF CALIFORNIA  
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING

TIME: 10:00 a.m.

DATE: Thursday, September 26, 2019

PLACE: California State Lottery Headquarters  
700 North 10<sup>th</sup> Street  
Sacramento, California 95811

Transcription Service: Martha J. Hanna  
Foothill Transcription Company  
8788 Elk Grove Blvd., Suite 2-D  
Elk Grove, California 95624  
(916) 443-7400

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**A P P E A R A N C E S**

**California State Lottery Commission**

SHERIFF GREGORY AHERN  
Chair of the Commission  
Commissioner

ROWENA LIBANG-BOBILA  
Vice Chair of the Commission  
Commissioner

NATHANIEL KIRTMAN, III  
Commissioner

PETER STERN  
Commissioner

**Participating Lottery Commission Staff**

Alva Johnson  
Director

Fernando Aceves  
Chief Counsel

Sharon Allen  
Deputy Director of Sales and Marketing

Jon Schlusser  
Deputy Director of Information Technology Services

Roberto Zavala  
Deputy Director of Internal Audits

Vincent Espinosa  
Chief Enterprise Risk Officer

Elisa Topete  
Assistant to the Commission

Rebecca Estrella  
Recording Secretary

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**Thursday, September 26, 2019**

**Sacramento, California**

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**CHAIRMAN AHERN:** Commission meeting to order.  
Ask you all to please rise. We'll start with the Pledge of Allegiance. Please join me in the pledge to our flag.

*(The Pledge of Allegiance was recited.)*

**CHAIRMAN AHERN:** Thank you. Good morning; will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Here.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Here.

**MS. TOPETE:** Chairman Stern?

**COMMISSIONER STERN:** Here.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Here. All right. Item Number 4, we have the Election of Chair and Vice-Chair. Chief Counsel Fernando Aceves; is that close?

**MR. ACEVES:** Correct.

**CHAIRMAN AHERN:** Can you please review the rules of the running of elections?

**MR. ACEVES:** Yes, thank you, Chairman Ahern.  
The California State Lottery Act provides that the Commission shall elect annually from its membership a

chairperson, Government Code 8880.19. The Commission may also elect a Vice-Chairperson of the Commission. Any commissioner can put the name of any commissioner into nomination, and a commissioner can nominate himself or herself to serve as the chairperson or vice-chairperson. The Lottery Act does not require a particular method of making nominations. Once nominations have been made, Chair Ahern shall declare the nominations closed. The votes are asked of each commissioner on the nomination, as with all Commission votes under the Lottery Act, and it takes three votes to take action. Chair Ahern will then declare the results of the election.

**CHAIRMAN AHERN:** All right, thank you, and we shall have open nominations for the positions of chairperson and vice-chairperson of the Commission. I'd like to continue as chair of the Commission, and I have a self-nomination for Commissioner Libang-Bobila for vice-chairperson.

**MR. ACEVES:** Thank you, Chair Ahern. I would like to note for the record that Commissioner Ahern has self-nominated for Commission chair, and Commissioner Libang-Bobila has self-nominated for Commission vice-chairperson. Now other than Commissioner Ahern, are there any other nominations for the position of chairperson of the Commission?

**CHAIRMAN AHERN:** All right, seeing none, then I'll declare the nominations closed. Can we please have a vote by roll call?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes, on both.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes, on both.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes, on both.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes, on both. So, my election to remain as chairperson of the California State Lottery is approved.

**MR. ACEVES:** You've already voted twice. Other than the Commissioner Libang-Bobila, are there any other nominations for the position of vice-chairperson of the Commission?

**CHAIRMAN AHERN:** Okay. Hearing none, we'll declare those nominations closed. Can we have a roll call for that vote?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. The election of the Commission, Libang-Bobila as vice-chairperson of the California State Lottery is also approved, and I'd like to thank you, my partners up here for the Lottery. It's a pleasure to be here, and I'm honored to serve again as the chair. We have a wonderful staff; I'm very proud of their work, and this is a very exciting time for us, so thank you.

**COMMISSIONER LIBANG-BOBILA:** Thank you as well.

**CHAIRMAN AHERN:** Item Number 5, Consider Approval of the Agenda. Commissioners, does anyone want to suggest any changes to today's agenda in any respect?

**COMMISSIONER KIRTMAN:** No changes.

**COMMISSIONER LIBANG-BOBILA:** No changes.

**COMMISSIONER STERN:** No changes.

**CHAIRMAN AHERN:** Do I hear a motion to adopt the agenda?

**COMMISSIONER KIRTMAN:** Motion to adopt the agenda.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, moving on to Item Number 6, Approval of the Minutes. Are there any corrections to the minutes?

**COMMISSIONER KIRTMAN:** No corrections.

**COMMISSIONER STERN:** No corrections.

**CHAIRMAN AHERN:** Seeing no corrections, do I hear a motion to approve the minutes of the June 20, 2019 Commission Meeting?

**COMMISSIONER KIRTMAN:** A motion to approve the minutes.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Okay, well, the formalities are done. We'll move on to Item Number 7. That's the Director's Report; call on Alva Johnson. Alva?

**MR. JOHNSON:** Thank you, Mr. Chairman; I'll present at the podium.

**CHAIRMAN AHERN:** Okay.

**MR. JOHNSON:** Good morning, Mr. Chairman, Commissioners.

**CHAIRMAN AHERN:** Good morning.

**MR. JOHNSON:** Lottery staff is very pleased to be here today for this meeting here in September, and I am pleased to report it is my 90<sup>th</sup> day on the job, and I've seen and learned a lot. So, we'll go ahead and get started. Let me get the presentation online here. Okay. Through the first 12 weeks of the fiscal year, total Lottery sales through September 21<sup>st</sup> are nearly \$1 ½ billion. Actual sales are shy of our sales goal through mid-September, with the gap being about \$102 million or a 0.06 percent shortfall. However, compared to last year's sales through the same time period, our current sales are just 0.01 percent lower. The primary reason for sales falling behind its goal through the first 12 weeks lies in the two multi-state jackpot games having no draw with a sizable jackpot. Tuesday's MEGA Million jackpot of \$227 million is the largest jackpot seen in either game this fiscal year. Pardon me for a moment

while I make sure we're in sync with the slide presentation. Okay. There we go. In terms of some details in the performance of our products, Scratchers sales through September 21<sup>st</sup> were over \$1.13 billion, which is short of its goal by only \$32 million, and relative to last year, Scratchers sales this summer are higher than what we experienced last summer by about 0.03 percent. Finally, I would like to note that last week, Scratchers sales met their weekly goals, so we may be turning the corner, and we'll begin to move towards achieving our fiscal year sales goal of \$5.375 billion. POWERBALL and MEGA Millions have combined to sell \$135 million worth of tickets through the first 12 weeks of the fiscal year; however, this leaves these games \$75 million shy of their collective goal through mid-September. POWERBALL'S biggest jackpot this fiscal year is \$194 million, back on July 13<sup>th</sup>. Last year by this time, there had already been three draws over \$200 million. That is why this year's sales are 19 percent below last summer's sales. MEGA Millions sales have been a bit stronger than POWERBALL, at over \$75 million. However, this is still \$30 million below goal and about 34 percent lower than last summer's sales. There have only been two draws this year with a jackpot in excess of \$200 million, and when you compare that to last year's 10 draws over \$200 million, including two that surpassed the \$400 million mark by mid-

September, you can understand why last year's sales were so high. Sales from SuperLotto Plus are above goal and higher than last summer's figures by nearly 15 percent. Through most of this summer, the game's jackpot continued to roll and reached \$172 million in mid-August. That was this game's largest prize since January 2017. Daily Games sales of \$85 million through September 21st are exactly on goal and running nearly 0.02 percent ahead of last summer's sales. And finally, for Hot Spot, sales through the first 12 weeks of the fiscal year are more than \$73 million, which is slightly higher than its goal and more than 0.09 percent ahead of sales through the same time last year. All right. Still trying to get the hang of this. I'm new here. Finally, just a few more comments to wrap things up. In addition to sales, we also assess how the Lottery's performing in terms of its profit goals. We have these calculations through the first two months of this fiscal year. While our sales were running at 93 percent of goal during July and August combined, our level of profits were just at 91 percent of goal. Because the sales performance of our multi-state jackpot games was much weaker than our Scratchers products, and these draw games have significantly higher profit margins, this led to our estimated profit being further behind its goal compared to the sales metric. In summary, although our current sales and profit levels are

short of their goals through mid-September, we believe there's no reason that we won't be able to attain our annual goals for the fiscal year by the end of June. Scratcher sales have begun to rise, and the shortfall in our multi-state jackpot games can easily be made up by a couple of big jackpot runs. I want to thank our Business and Planning Research Unit, led by Jim Hasegawa, who has provided the data for this presentation. Our action items today number about eight. We have three from Sales and Marketing, about three from Information Technology, one from Internal Audits and one from our Enterprise Risk Management Division, and that concludes my report.

**CHAIRMAN AHERN:** All righty, thank you. Any comments from the Commission?

**COMMISSIONER KIRTMAN:** One quick question.

**MR. JOHNSON:** Yes, sir.

**COMMISSIONER KIRTMAN:** On the sales update, is there any value in having a comparison against the estimate that we have going forward versus the change versus the last year, which is full of variants, just to get sort of a more of an apples-to-apples comparison of how we're looking, how we're projecting --

**MR. JOHNSON:** Uh-huh.

**COMMISSIONER KIRTMAN:** -- versus looking at last year where we don't know if there's going to be 10 or 50

\$500 million jackpots? I'm not suggesting that there's value there; I'm genuinely asking is there?

**MR. JOHNSON:** I think it's a great question. We can always benefit from an apples-to-apples comparison, but I'd like to have our folks from Finance or Business Planning give you a little more insight into that.

**COMMISSIONER KIRTMAN:** Okay, cool.

**MR. JOHNSON:** Do you want to take that one, Nick, or do you want (inaudible)?

**MR. BUCHEN:** Good morning, Commissioner.

**COMMISSIONER KIRTMAN:** Hi, Nick.

**MR. BUCHEN:** Hi. So, yeah, there's definitely value to doing both. I think that the advantage of looking back to a year ago is to see the year-over-year progress, all the variables aside, and then of course, comparing to the budget; that provides value from the standpoint of that's our most current estimate.

**COMMISSIONER KIRTMAN:** Sure.

**MR. BUCHEN:** The caveat to that is when we build the budget for Draw Games in particular, we just simply divide the annual goal essentially by four to come up with the quarterly assumption, and so it can be misleading when you compare the point in time to the estimated sales goal for, just because of the way it's calculated.

**COMMISSIONER KIRTMAN:** Got it. So "goal" is

just as --

**MR. BUCHEN:** Volatile or --

**COMMISSIONER KIRTMAN:** -- it equals about the same.

**MR. BUCHEN:** Yeah.

**COMMISSIONER KIRTMAN:** Okay. Got it.

**MR. BUCHEN:** Scratchers and Hot Spot are more stable in terms of what we are bringing in at any given time compared to the goal, and the Daily Games of course, as well, so it's really just a multi-state jackpot games that can have big variances that we would need to explain why it's not tracking, and it's really just a function of how we build a budget.

**COMMISSIONER KIRTMAN:** Got it. Thanks, Nick.

**MR. BUCHEN:** Okay.

**CHARIMAN AHERN:** Thank you, Nick.

**MR. JOHNSON:** Any additional questions?

**CHAIRMAN AHERN:** All right. Good job, and we'll move on to action items, and we'll start with Action Item 9a, Hispanic Market Advertising Services Contract and Sharon Allen. Good morning, Sharon.

**MS. ALLEN:** Good morning, Chairman and Commissioners and happy to be here today. I have the first three items. So first up, Item 9a, Hispanic Market Advertising Services Contract. The Lottery's contract for

Hispanic Market Advertising Services is expiring on September 30<sup>th</sup>, 2019. In preparation for a new contract, the Lottery released an RFP in January to solicit bids from qualified agencies to provide Hispanic market advertising services. To create wide awareness among potential bidders, the RFP was advertised and promoted extensively, including within advertising trade media and small businesses and State government procurement listings. Notices were also sent to roughly 100 agencies registered in the Lottery's vendor database, as well as to a list of top Hispanic advertising agencies in California. For the new contract, the Lottery was looking for an agency team with deep expertise in the Hispanic market, with the ability to develop breakthrough work and marketing communications solutions that will successfully elevate the brand, drive sales, and increase player engagement among the Hispanic consumer segment. Additionally, the Lottery sought an agency that would be able to work collaboratively with the Lottery as well as our other advertising agency partners. The current annual Hispanic Market contract expenditure is approximately \$5 million. This covers strategic and creative services, including the production of a variety of advertising elements. A majority of media buying for this segment is done through Horizon Media via the lead agency advertising contract. The RFP process consisted of three

phases, each with a diverse Lottery evaluation team comprised of subject matter experts from multiple sales and marketing units, legal and business planning, as well as representatives from Contract Development Services. The first phase focused on capabilities. It was open to all vendors that met specified minimum qualifications associated with years of experience, agency size, digital capabilities, California office location and some basic business requirements. Agencies were required to outline their qualifications and provide case studies that demonstrate their strategic capabilities and creative expertise. Ten agencies submitted proposals in response, and six agencies advanced to phase two. This phase consisted of agency site visits focusing on a chemistry and culture check. The goal of these face-to-face meetings was for the evaluation team to get a sense of each agency that went beyond the written work and credentials in phase one. The evaluation team wanted to personally meet with the staff that would be assigned to the Lottery account to assess the depth of resources, measure the strategic process, and evaluate the intensity of the agency's interest and commitment to the Lottery business. From here, three agencies advanced as finalists. The third phase focused on a Lottery work assignment and evaluation of the agency staff plan and compensation proposals. It also included observers that

brought expertise in sales, marketing, and Hispanic culture. The three finalists were asked to prepare and present a work assignment. The Lottery evaluated each agency's strategic and creative solutions. Finalists also provided proposals that demonstrate how it would staff the account and outline its compensation requirements. This was evaluated on both the stand-alone and comparative basis. Following the final presentations and submission of the staff plan and compensation proposals, the evaluation team performed a best-value analysis to determine which proposal provided the Lottery with the maximum benefits in the areas of competence, experience, qualifications, performance, and price. As a result of this analysis, the evaluation team determined that Circus Marketing, based in Santa Monica, would provide the Lottery with the best value in all desired areas. Circus demonstrated the ability to provide breakthrough solutions for the Lottery to achieve our goal of successfully motivating the Hispanic consumer in an innovative and effective way. The quality of Circus' strategic thinking, integrated marketing planning and creativity are exemplified by its strong ratings in the three phases of the RFP. Circus consistently rated "Exceeds" or "Significantly Exceeds" in all phases. We recommend that the Commission approve awarding a contract to Circus Marketing to provide Hispanic market advertising

services for five years, with the option to unilaterally extend the contract for up to two additional one-year terms, with a maximum total expenditure authority of \$30 million. This amount assumes the expenditures will remain at current levels over the next five years but does include an assumed inflation factor. To the extent an expansion of our efforts is required to meet future strategic objectives in this segment, the Lottery will subsequently request that the Commission increase the contract expenditure authority as necessary. And finally, this is one of the most significant contracts in marketing, and the RFP process is extensive, taking well over a year to complete. I'd like to sincerely thank the many Lottery staff in all divisions who worked on this project for their hard work and dedication and particularly to Agnes Kramer, who was the chairperson leading this effort, and I'd be happy to answer any questions at this point.

**COMMISSIONER LIBANG-BOBILA:** I have a question. You said that they provided breakthrough --

**MS. ALLEN:** Creative?

**COMMISSIONER LIBANG-BOBILA:** Yes. Can you just give me an example on what that is or what those are, and how was it different from Casanova?

**MS. ALLEN:** It said as part of the work assignment, it was related to DRAW GAMES and multi-state,

and so they presented a number of creative solutions that would go across all media, from television to digital to social to outdoor that really focused on a strategic insight about helping to how to play surrounding the numbers, and this was a DRAW GAME, so it's about the numbers and tying into mythology, and their solution involved making it fun, too. That's one of the things, as we move and try to position our brand as fun and entertainment, so have fun with the game, tie into the numbers and really do something in a creative and interesting way. And Casanova has been a fantastic partner as well for the Lottery for over 30 years and delivered a number of creative solutions, but this is, you know, a new change for the Lottery, and it will be exciting to see us move ahead.

**COMMISSIONER LIBANG-BOBILA:** Sure. I mean, I say that because I'm not really familiar with the marketing strategies for the Hispanic community; I mean, I don't really see it -- and I didn't see it in the day-to-day.

**MS. ALLEN:** In the previous? And the Hispanic segment has evolved significantly over the last 10 years, as it has increased, and it's become a majority, and traditional -- maybe 10 to 20 years ago, Spanish marketing, Hispanic segment marketing was very much focused to the Spanish language only, but with the Hispanic segment now being part of the majority in many of the markets, we look

at that across all segments, whether that's English-dominant Hispanics, bilingual or Spanish-dominant Hispanics and understanding those nuances, and Circus brought a data-driven, in-depth analysis to the California Hispanic audience, looking at the differences across those different segments but also within markets. The Hispanic community in the Central Valley is different than in San Diego or San Francisco or Los Angeles, so we can't have a one-size-fits-all for the State and looking at each one and how we can better reach and resonate the message to have impact. So even if we're in English-language media, if a majority of the viewers are Hispanic, we want to make sure that we're connecting with them in a memorable and effective way.

**COMMISSIONER LIBANG-BOBILA:** Sure.

**MS. ALLEN:** Yeah. Did that help?

**CHAIRMAN AHERN:** Any other Commissioners have questions?

**COMMISSIONER KIRTMAN:** No.

**COMMISSIONER STERN:** No.

**CHAIRMAN AHERN:** Okay. Does any member of the public wish to address the Commission at this time regarding Action Item 9a? Seeing none, do I hear a motion to approve Action Item 9a?

**COMMISSIONER LIBANG-BOBILA:** Motion to approve.

**COMMISSIONER KIRTMAN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second.  
Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, Sharon,  
you're on to 9b, the Extension of the African American  
Advertising Services Contract.

**MS. ALLEN:** All right. Thank you. The Lottery  
currently contracts with Muse Communications for African  
American advertising services. The existing term is set to  
expire October 31<sup>st</sup> of this year. Staff recommends that the  
Commission approve an amendment to the Muse contract to  
extend to the contract term for one year. In 2013 the  
Commission awarded Muse a five-year contract with the option  
to extend for two additional one-year terms. The five-year  
term of this contract was from November 1<sup>st</sup>, 2013 to October  
31<sup>st</sup>, 2018, and with an initial contract expenditure  
authority of \$12.5 million. In September of last year, the  
Commission approved a one-year extension of the contract,  
thus amending the contract term to end October 31<sup>st</sup>, 2019.

To date, Muse has consistently provided a high level of service in the development and execution of marketing and advertising programs directed toward African American consumers in California. Extending Muse's contract will ensure that the Lottery will continue without interruption efforts to address this audience in a relevant and effective manner through October 31<sup>st</sup>, 2020. The Lottery is considering issuing a Request for Proposal after this one-year extension. We estimate that approximately \$3 ½ million remain at the current expenditure authority and that it will be adequate to cover the activities during the extension period. We recommend the Commission approve an amendment for the Muse contract for African American advertising services to extend the term by one year, with a new contract end-date of October 31<sup>st</sup>, 2020, with no additional funds required. The maximum contract expenditure amount will remain at \$12.5 million, and if you have any questions, I'd be happy to answer them.

**CHAIRMAN AHERN:** Any members of the Commission have questions or comments about 9b?

**COMMISSIONER KIRTMAN:** No questions.

**COMMISSIONER LIBANG-BOBILA:** Just, we like the fact that there's no additional funds (inaudible).

**MS. ALLEN:** We try to be very efficient.

**COMMISSIONER LIBANG-BOBILA:** And the RFP process

will start, too.

**MS. ALLEN:** And we'll start that and running both simultaneously, but that Hispanic contract is much larger.

**COMMISSIONER LIBANG-BOBILA:** Right.

**MS. ALLEN:** Staff's still doing their day-to-day job on top of these, so it's a lot.

**COMMISSIONER LIBANG-BOBILA:** Sure. Thank you.

**CHAIRMAN AHERN:** And does any member of the public want to address the Commission at this time regarding Action Item 9b? Seeing none, do I hear a motion to approve 9b, the extension of the African American advertising services contract?

**COMMISSIONER STERN:** Move Item b.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the secretary please call the role?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, third item

for Sharon, Request to Add Positions for Sales and Marketing Division.

**MS. ALLEN:** Okay. This request is to add two new Office Technician-Typing positions to provide dedicated administrative support to both the assistant deputy director of marketing and the assistant deputy director of sales. Both assistant deputy directors oversee multiple units and manage a large number of staff tasked with design, production, marketing, and distribution of Lottery products at over 23,000 retailers. However, neither has dedicated secretarial support. They either perform these duties themselves or rely on analytical staff, who should be focused on higher-level work. As Lottery sales have grown year over year, the number of staff and responsibilities held in the Sales and Marketing Division has increased. This has resulted in additional demands and obligations competing for the time and attention of the assistant deputy directors. As a result, the assistant deputy directors must spend a substantial portion of their days reviewing, prioritizing, and responding to inquiries from their staff, other divisions, and external stakeholders. The new office technicians will assume much of this clerical and administrative work, enabling both assistant deputy directors to more effectively manage their workloads and allow their respective units to receive faster responses and

operate more efficiently. We recommend that the Commission approve the creation of two new Office Technician-Typing positions and associated funding of \$88,000 for the remainder of this year for Sales and Marketing. Note that the full-year cost of these two positions will be \$132,000, and I'd be happy to answer any questions on this one.

**CHAIRMAN AHERN:** Any Commissioners have any questions?

**COMMISSIONER STERN:** Yeah, here, a quick question. Can you comment on the recruitment process? Where do you find your talent pool? What's your approach?

**MS. ALLEN:** For Office Technicians, it's a pretty, relatively easy to get within the State, because all State agencies have those, so it goes on CAL HR. We're looking at expanding our recruitment in general, particularly for Sales and Marketing in some of the dedicated positions, working with HR through Linked In, also across all of the Lottery industry websites, (inaudible) NASPL, A+E, Associates International Advertisers, American Marketing Association. So, Office Technician is a bit easier because there's a lot of demand for those positions in finding a qualified candidate. For some of the more specialized in Sales and Marketing, we do a wider outreach.

**COMMISSIONER STERN:** Great, thank you.

**COMMISSIONER LIBANG-BOBILA:** That's a great

(overlapping).

**CHAIRMAN AHERN:** Any other questions?

**COMMISSIONER KIRTMAN:** No questions.

**CHAIRMAN AHERN:** I just find it funny that we are looking for somebody for typing.

**MS. ALLEN:** And that gives them a higher -- at a higher pay classification to get somebody in --

**COMMISSIONER STERN:** On a briefing call, somebody said the IBM sold (overlapping).

**MS. ALLEN:** Liquid paper is part of the requirement.

**CHAIRMAN AHERN:** Autocorrect.

**MS. ALLEN:** All right.

**COMMISSIONER LIBANG-BOBILA:** Great idea.

**COMMISSIONER STERN:** Cursive option.

**COMMISSIONER LIBANG-BOBILA:** I'm glad it's happening.

**CHAIRMAN AHERN:** Yeah. Does any member of the public want to address the Commission at this time regarding Action Item 9c? Seeing none, we have a motion to pass Action Item 9c.

**COMMISSIONER LIBANG-BOBILA:** Motion to pass Action Item 9c.

**CHAIRMAN AHERN:** We have a motion.

**COMMISSIONER STERN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second.  
Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Sharon, thank you very  
much for all your hard work.

**MS. ALLEN:** Thank you.

**CHAIRMAN AHERN:** We'll call up Jon, Action Item  
9d, Amendment for the Internal Control System Contract.

**MR. SCHLUSSLER:** Good morning.

**CHAIRMAN AHERN:** Good morning.

**MR. SCHLUSSLER:** Good morning, Director  
Johnson, Chairman Ahern, Commissioners. This item is to  
extend or amend a contract for our ICS system, and the  
purpose of the ICS system is to ensure the integrity of the  
Lottery's gaming system. We contract with a third-party  
vendor to validate the Lottery transactions and any  
anomalies that occur during daily balancing. These  
essential services have been provided by Elsym Consulting  
since 2014. Elsym also performs our tax reporting services  
to players, retailers, and IRS. They have been doing this

job very well, and we would like to amend this contract to extend the term for four additional years and achieve a hardware upgrade at the same time. Because it's been going since 2014, we need a new version of the hardware so that we can adjust for the future. We are recommending that the Commission approve the amendment to add \$1.5 million in funds and extend the term till October 2023. One item I want to address is that on the second page of the item, there is a typo that says \$1.6 million. That should say \$1.5 million. It's near the top of the item on the second page.

**CHAIRMAN AHERN:** Did any of my other partners catch that, or was I the only one?

**MR. SCHLUSSLER:** You were the only one. What a job.

**CHAIRMAN AHERN:** Just want to make -- for the record.

**MR. SCHLUSSLER:** Good job.

**CHAIRMAN AHERN:** All right.

**MR. SCHLUSSLER:** That's why you're the Chairman, right?

**CHAIRMAN AHERN:** There you go.

**MR. SCHLUSSLER:** And I will gladly answer any questions you might have about this.

**CHAIRMAN AHERN:** All right. Do any of the

Commissioners have any questions at this time?

**COMMISSIONER STERN:** Yeah, just an approach question. It's my understanding that the hardware and software is included in this contract as well --

**MR. SCHLUSSLER:** That is correct.

**COMMISSIONER STERN:** -- including the service and the (overlapping)?

**MR. SCHLUSSLER:** Yes, that is correct. Yeah.

**COMMISSIONER STERN:** And so, is this viewed more as a software and hardware subscription, so at the end of the term, we essentially don't retain any of the licensing or hardware, and then we'd have to renew that, almost like a Cloud or a software as a service type of -- ?

**MR. SCHLUSSLER:** Very much so, Commissioner. The services being provided by Elsym are proprietary to their services; they are providing that ability to basically reconcile our transactions. Now the tax services are a little bit different. They use a commercial tax software system to do that, but we're paying them for all the mailing, all the processing, all of that for the whole tax processing, but for the ICS functions, you're absolutely correct.

**COMMISSIONER STERN:** Great, thank you.

**CHAIRMAN AHERN:** Any other questions?

**COMMISSIONER LIBANG-BOBILA:** No, not from me.

**CHAIRMAN AHERN:** All righty. Does any member of the public want to address the Commission at this time regarding Action Item 9d? Seeing none, do I hear a motion to approve Action Item 9d, Amendment for the Internal Control System Contract?

**COMMISSIONER STERN:** So, move 9d.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, John for 9e, Windows 10 Refresh Project.

**MR. SCHLUSSLER:** Yes. Yes, this item is to update our existing PCs, laptops, and tablets so that they can adopt or --

**CHAIRMAN AHERN:** And typewriters?

**MR. SCHLUSSLER:** -- you know, I took all those home, you know?

**CHAIRMAN AHERN:** Okay.

**MR. SCHLUSSLER:** No, the typewriters have been obsolete here for a while. We just haven't changed the classification. That's a beautiful thing. So, anyway, the Lottery needs to upgrade our laptops, desktops, and tablets to accommodate a required upgrade to Windows 10. Microsoft has, in their infinite wisdom, said that Windows 7 is no longer going to be viable after December of this year, so we need to upgrade our equipment so that it can accommodate the Windows 10 operating system. Most of our existing equipment will not operate under Windows 10 currently. Over the course of the next several months, we need to procure about 750 new computers. During this effort, we are also taking the opportunity to consolidate the Sales staff equipment to remove their iPads and laptops and replace them with Surface Pro tablets. It will allow them to be a little more effective and efficient with one device rather than having to switch between two different devices. We recommend that the Commission approve a phased procurement with the maximum expenditure for this project of just over \$1.75 million. I will answer any questions you might have.

**CHAIRMAN AHERN:** Any questions?

**COMMISSIONER KIRTMAN:** No questions.

**CHAIRMAN AHERN:** Just a comment that in law enforcement, we're seeing the shift between Windows 7 to Windows 10, and the Windows 7 is obsolete, causing us a lot

of issues; however, the tablets that we're now using are faster, better, and service much better, so I hope that does the same for the Lottery.

**MR. SCHLUSSLER:** Yeah, we're optimistic that it will. We've run a pilot now for several months, and we've had that reaction so far.

**CHAIRMAN AHERN:** All right. No questions from the Commissioners. Does any member of the public want to address the Commission regarding Action Item 9e? Seeing none, is there a motion to approve Action Item 9e?

**COMMISSIONER LIBANG-BOBILA:** Motion to approve.

**COMMISSIONER STERN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, Jon, if you'd continue on with 9f, Consolidated Communications Enterprises Services and their contract?

**MR. SCHLUSSLER:** Yes. The intention of this

item is to amend the contract for what we call CCI to provide Lottery with telecommunications services and limited TV services. The original contract was established in February of 2017. The services allow for connections between our district offices, Headquarters, and warehouse locations. Unfortunately, the initial funding is inadequate for the volume of communications services used on a monthly basis. Our original estimates for usage were approximately \$50,000 per month, where our actual usage has averaged \$64,000 per month. We are improving our contract review processes and our estimation processes to try to prevent this in the future, but in addition to that, we've upgraded many of our equipment items in the district offices and added more cameras, which take up more volume across the lines, so without an amendment, our services would end in November of 2019. We recommend the Commission approve an amendment to increase the authorized expenditures by \$475,000. Can I answer any questions?

**CHAIRMAN AHERN:** Does any member of the Commission have a question?

**COMMISSIONER KIRTMAN:** No questions.

**COMMISSIONER LIBANG-BOBILA:** No questions.

**CHAIRMAN AHERN:** No questions? Does any member of the public want to address the Commission at this time regarding Action Item 9f? Seeing none, do I hear a motion

to approve Action Item 9f, about the Consolidated Communications Enterprise?

**COMMISSIONER STERN:** Move Item 9f.

**CHAIRMAN AHERN:** We have a motion.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second; will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Okay, Jon, thank you very much.

**MR. SCHLUSSLER:** Thank you.

**COMMISSIONER LIBANG-BOBILA:** Thank you.

**CHAIRMAN AHERN:** Move on to Robert, Action Item 9g, Extension of KPMG Financial Audit Contract.

**MR. ZAVALA:** Good morning, Chairman --

**CHAIRMAN AHERN:** Good morning.

**MR. ZAVALA:** -- and new Vice Chair.

Congratulations today --

**CHAIRMAN AHERN:** Thank you.

**MR. ZAVALA:** -- and Commissioners, yourselves, too.

**COMMISSIONER LIBANG-BOBILA:** Thank you.

**COMMISSIONER STERN:** Thank you.

**MR. ZAVALA:** Today I have Item 9g, the Extension of the KPMG Contract. As you know, the Lottery's financial statements are audited on an annual basis. The current contract that we have with KPMG will expire on March 29<sup>th</sup> of 2020. The Lottery Act requires us to get audited by a contract with a CPA firm. Financial statements must be provided within 120 days of the fiscal year that ended. KPMG's current contract has been in place since March of 2016, the options on the contract to allow extension for additional two-year periods. The current contract amount is \$720,000. So, in exercising this option today, this will allow us to continue receiving services that are needed by not just the financial audit but also for prize liability reviews for the POWERBALL and MEGA Millions. We recommend that the Commission today approve the one-year option. The new expiration date will be March 29<sup>th</sup> of 2021. The additional funds needed to support the additional year will be \$260,000, bringing the total contract amount to \$908,000. I'd be happy to take any questions you may have.

**CHAIRMAN AHERN:** All right. Do we have any questions from the Commissioners?

**COMMISSIONER KIRTMAN:** No questions.

**COMMISSIONER LIBANG-BOBILA:** No questions.

**CHAIRMAN AHERN:** All right. Does any member of the public want to address the Commission at this time regarding Action Item 9g? Seeing none, do I hear a motion to approve Action Item 9g?

**COMMISSIONER LIBANG-BOBILA:** Motion to approve.

**COMMISSIONER STERN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes.

**MR. ZAVALA:** Thank you.

**CHAIRMAN AHERN:** All right, thank you.

**COMMISSIONER LIBANG-BOBILA:** Thank you.

**CHAIRMAN AHERN:** All right, Vincent, for Action Item 9h, Request to Add Positions to Support the Risk and Process Evaluation Section.

**MR. ESPINOSA:** Good morning, Commissioners.

**CHAIRMAN AHERN:** Good morning.

**MR. ESPINOSA:** I'm here to request the approval of four positions to support the new Risk and Process Evaluation Section. As you are aware, the Lottery is subject to numerous audits from various entities that have resulted in a number of audit findings related to ineffective internal controls. The Lottery does not currently have dedicated staff at the enterprise level that can evaluate Lottery policy, programs, procedures, and documentation efforts on an ongoing basis. Monitoring and reporting on controls at the enterprise level ensures communication, expectation, and compliance at the divisional level. Monitoring controls is essential to ensure controls are operating efficiently as required and focused on lowering the number of audit findings. The Lottery is currently tracking 80-odd findings that occurred between 2015 and 2019. A common thread among these findings involved policies, procedures, and documentation. Lottery staff recommends that the California Lottery Commission approve the establishment of the four positions to ensure continuous monitoring becomes a cultural practice at the California State Lottery. I can answer any questions you may have.

**CHAIRMAN AHERN:** Does any member of the Commission have any questions?

**COMMISSIONER KIRTMAN:** No questions.

**CHAIRMAN AHERN:** I have a couple I forgot during the briefing. When you do these policies and changes and amendments to existing policies, do we send that out through a, like, a system Lottery-wide, to statewide so they simply have to go onto a database and collect that they recognized a change in the policy?

**MR. ESPINOSA:** Correct. There's going to be a communication piece of this component, and saturating it through the department when applicable, because there are some items that are security related that we will not share everywhere, but we do -- definitely, we'll have a communication plan that's locked into this. I'm still in the phases of trying to fit it into what our culture is here, what works best for us and how to get that out to all staff. But it's tied to something called the three lines of defense, and the three lines of defense is at the first line of defense, each manager understands their objectives and that they're adhering to those objectives, and that unit is producing what is expected of them. The second line of defense is more like a governance; it's risk-assessment and things like that. And then the third line is your internal audit comes to evaluate whether or not everything is kosher and up to speed.

**CHAIRMAN AHERN:** And let the documentation

comply (inaudible) with the policy. All right.

**MR. ESPINOSA:** I want to be able to pull that manual out and say, here's exactly what we're doing.

**CHAIRMAN AHERN:** I like that. I have a couple ideas for you if you -- after the meeting.

**MR. ESPINOSA:** Sure.

**CHAIRMAN AHERN:** Okay. Okay. Does anyone in the public wish to address the Commission at this time regarding Action Item 9h? Seeing none, do I hear a motion to approve Action Item 9h?

**COMMISSIONER KIRTMAN:** Motion to approve.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All righty, thank you very much, Vincent.

**MR. ESPINOSA:** Thank you.

**CHAIRMAN AHERN:** Okay. Moving on to Number 10,

Commissioner General Discussion. Do any of the Commissioners have anything they'd like to bring up at this time?

**COMMISSIONER KIRTMAN:** No.

**CHAIRMAN AHERN:** Okay. Number 11 is about our tentatively scheduled Commission meeting, scheduled for November 21<sup>st</sup> here in the beautiful city of Sacramento. Number 12, we didn't have any people from the public sign up for any comments. Seeing no one at the podium, Alva, do you have anything you'd like to add?

**MR. JOHNSON:** Thank you, Mr. Chairman. I just wanted to first commend the staff here at the Lottery who've been working really, really hard to onboard our new executive team. We have, in addition to myself appointed back in June, we've got our Chief Deputy Arj Chima, who's been here for almost a couple months now. In addition, we have a new Chief Counsel, Fernando Aceves, to my right. We've really been diving into the operations and trying to get up that learning curve as fast as we can, and in part of that effort, we've identified key things that need to be addressed, including the review of policies and procedures, as Mr. Espinosa outlined. We're going to put together a team to take a hard look at that. Mr. Chairman, we are also very, very pleased to welcome our new Commissioner, Peter Stern. He was appointed by the Governor back in June and

was recently sworn in. We were delighted to have him here in our offices, gave him a tour, showed him around. He comes to us with a lot of experience in oversight and management, principally working with the Airport Commission in San Francisco, also worked at Salesforce.com for quite a while, has a strong background in tech, and we're looking forward to benefiting from his expertise on the team.

**CHAIRMAN AHERN:** Outstanding comments, and Peter, we'd like to welcome you as well. You bring a real level of expertise to the Commission, and just glad to have you here, have a fourth seat and a fifth seat coming soon.

**COMMISSIONER STERN:** Yes, sir.

**CHAIRMAN AHERN:** And it's hard to get a quorum.

**COMMISSIONER STERN:** Right.

**CHAIRMAN AHERN:** So, with that, without any further ado, we'll call for an adjournment. Thank you very much.

**COMMISSIONER LIBANG-BOBILA:** Thank you.

**CHAIRMAN AHERN:** Have a great day and stay in the shade. One more day, one more day. (End of Recording)

**(MEETING ADJOURNED)**

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