

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – November 19, 2020

Sacramento, California

1. **Call to Order**

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:00 a.m. The meeting was held via Microsoft Teams and teleconference.

2. **Pledge of Allegiance**

Chairman Ahern led the Pledge of Allegiance.

3. **Roll Call**

Chairman Ahern asked Elisa Topete to call the roll.

Commission Members Present:

Chairman Gregory Ahern

Commissioner Peter Stern

Commissioner Nathaniel Kirtman (Joined meeting at 10:07 a.m.)

Commissioner Keetha Mills

California State Lottery staff and presenters:

Alva V. Johnson, Director

Fernando Aceves, Chief Counsel

Roberto Zavala, Deputy Director of Internal Audits

Derick Brickner, Chief of Facilities Development, Operations Division

Sharon Allen, Deputy Director of Sales and Marketing

Tiffany Donohue, Deputy Director of Operations

Chris Fernandez, Deputy Director of Human Resources

Elisa Topete, Assistant to the Commission

4. **Consider Approval of the Agenda**

Chairman Ahern asked if any of the Commissioners wanted to make changes to the November 19, 2020, proposed agenda. Commissioner Peter Stern made the motion to approve the agenda and was seconded by Commissioner Keetha Mills. The agenda passed unanimously.

5. **Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the September 24, 2020, minutes. Commissioner Mills made the motion to approve the minutes for the September 24, 2020, Commission Meeting and was seconded by Commissioner Stern. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director Alva Johnson provided estimates of Lottery sales through November 7th. Sales were just below \$2.77 billion, which is approximately \$317 million above the sales goal through the first 19 weeks of this fiscal year and represents a 21% increase over sales through this same time period last year.

Director Johnson provided an overview by product beginning with Scratchers[®] sales. Based on ticket distributions, sales are about \$2.23 billion through early November. Combined sales for Powerball[®] and Mega Millions[®] are totaling \$187 million to date and SuperLotto Plus[®] sales are currently just under \$80 million. The Daily Games, which included Daily 3, Daily 4, Fantasy 5, and Daily Derby[®] continue to see strong sales with over \$151 million and Hot Spot[®] sales are more than \$125 million.

Director Johnson concluded that although Lottery's sales have declined to a greater extent than many other jurisdictions last fiscal year, sales have begun to rebound quite well over the first four and a half months of this fiscal year. These early signs are very promising, as the Lottery is currently ahead of sales and contributions to education goals.

Commissioner Stern asked if the Lottery were to see incremental shutdowns that take place in light of the growing sales, does staff foresee any inventory deficiencies, or are there plans around that for the coming months and quarters.

Deputy Director of Business Planning, Jim Hasegawa, stated that the volume of shipments has risen quite dramatically to almost pre-pandemic levels. Deputy Director of Sales and Marketing, Sharon Allen, explained that staff have made a number of modifications to the warehouse operations to restore distribution. Staff is carefully adding more games to the mix in order to maintain timely delivery. Normally, there are 40-45 games available for retailers, but staff is controlling that inventory to be just 24 so that it can be quickly moved through the shipments to make sure that the Lottery's retailers receive them quickly. More games are being added in November. Moving forward, as more staff has been brought in, there have been modifications to the distribution centers, and more pick-and-pack stations have been added.

b. Audit Committee Report

Deputy Director of Internal Audits, Roberto Zavala, provided a background of the Audit Committee establishment, prior committee members and the re-appointment of new committee members. Mr. Zavala went over the Lottery's Internal Audits and Reviews as well as External Audits and Reviews. Significant areas of improvement include the procurement process; travel expense claims; contract management;

training programs for retailers and employees; policies and procedures, and budgets.

Mr. Zavala also reported that since 2014, the Lottery has been certified by the World Lottery Association under its Security Control Standard. In addition, lotteries must be ISO 27001 certified before receiving WLA certification and the Lottery recently received re-certification, which is valid for the next three years. The California State Lottery is the only state in the United States with this designation. The World Lottery Association also recognizes the Lottery for its Responsible Gaming by certifying it to a Level 4 for its Responsible Gaming Framework.

Commissioner Mills was amazed at the number of audits that are being managed by the Internal Audits unit in identifying risk areas and making sure that the Lottery has a well-controlled operating environment as well as managing outside audits to make sure the Lottery is maximizing funding to education. Commissioner Mills expressed her appreciation for the transparency in highlighting the ways that the Lottery can continuously improve. Both Commissioner Mills and Commissioner Kirtman congratulated Mr. Zavala on his upcoming retirement. Director Johnson thanked Mr. Zavala for his years of service, and experience at managing issues that have helped the Lottery tremendously. He noted his appreciation for the standards that Mr. Zavala has set.

c. Facilities Master Plan Update

Derick Brickner, Chief of Facilities Development in the Operations Division, provided a brief background on the Lottery's Facility Master Plan (FMP) which was approved by the Commission in November 2013. The FMP was to replace nine leased facilities with owned facilities. The program goals were to provide long-term cost savings to the Lottery and ensuring ongoing operational needs were met. The goal was to obtain Leadership in Energy and Environmental Design "silver" certification or higher, Zero Net Energy, and include electric vehicle charging stations, which responds to the Governor's Executive Order B-18-12. As of July 18, 2020, all FMP projects have been completed. Mr. Brickner provided details on each of the facilities and displayed before and after photos of the leased and owned properties. The Lottery has saved money on all property purchases compared to initial projections. The FMP will provide long-term savings to the Lottery along with stability and flexibility of future operations and room to support continued growth. The program successfully demonstrated the collaborative effort spanning the entire organization.

Commissioner Mills congratulated the efforts of staff for the successful completion of the FMP and the fact that it came under budget, which means it will generate more money towards the Lottery's beneficiary – public education.

d. Holiday Scratchers® Campaign

Deputy Director of Sales and Marketing, Sharon Allen, presented an overview of the Holiday Scratchers Campaign. The holiday season forms one of the two highest sales seasons for Scratchers. Ensuring strong sales during this season is vital to help the Lottery fulfill its mission. Holiday designs represented 15% of total Scratchers sales during the 2019 festive period, as well as attracting and driving consumer interest in the overall category. The Lottery recognizes that this year is different in that consumers' daily lives have been impacted by the COVID-19 pandemic. Economic uncertainty remains throughout the holiday season and the pandemic has shifted traditional shopping behavior and the way Californians will celebrate this year.

Ms. Allen provided information on the four new holiday games that were released at the end of October. For the campaign strategy and approach, staff continued to build on the successful gift-giving strategy from years past and positioned Scratchers as the perfect gift giving for those you appreciate. Staff developed a phased campaign approach that included the ticket on-sale period, the holiday shopping period and New Year's 2021. The next phase included the marketing support of TV/Video, out of home, audio/radio, digital/social media, influencers, point-of-sale and search engine marketing. There will also be heavy promotion on calottery.com, player newsletters and organic media. The coverage for the paid digital tactics across the state will include Los Angeles, San Francisco, Sacramento, San Diego, Fresno, Bakersfield, and Monterey-Salinas. Ms. Allen displayed the campaign calendar, examples of key art and the holiday video spot that focuses on showing appreciation for others by positioning Scratchers as the perfect gift – meaningful, uniquely fun, thoughtful and affordable.

Commissioner Stern indicated that he received a lot of positive feedback as it related to the PAC-MAN promotional videos and asked how much the video was driving ticket sales versus other channels. Ms. Allen stated that she would look up the exact breakdown to provide that information to Commissioner Stern but explained that based on past reviews, staff is investing more in video with this Holiday Campaign, which allows the Lottery to get the message out and create an impact. Seeing a spot on TV, a pre-roll on YouTube, and seeing a billboard or point-of-sale signage, brings it all together especially with products that are less of a planned purchase and more of an impulse.

7. Consent Calendar

8. Action Items

a. African American Marketing and Advertising Services Contract

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval to award a contract to Quantasy + Associates to provide African

American agency advertising services with an initial term of five years with the Lottery's unilateral option to extend the contract for up to two additional one-year terms.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a). No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(a) and it was seconded by Commissioner Mills. The motion passed unanimously.

b. Amendment to Extend the Contract Term for Statewide Architectural Services

Deputy Director of Operations, Tiffany Donohue, requested Commission approval for the third amendment to the LPAS Inc. contract, to extend the contract term one year to March 20, 2022, which will provide sufficient time to complete the architectural services for the Northern Distribution Center Remodel project.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(b). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(b) and was seconded by Commissioner Kirtman. The motion passed unanimously.

c. Request to Add Positions to Human Resources Division

Deputy Director of Human Resources (HR), Chris Fernandez, requested Commission approval for seven new positions to properly manage increased workload and responsibility. The additional staffing is necessary to facilitate the effective provision of critical services, support the department's efforts to move forward strategically, and ensure compliance with employment policies, laws, rules, and accepted best practices related to personnel operations and safety.

Commissioner Mills asked Mr. Fernandez to clarify the overall assessment process that took place to identify the needs within Human Resources. Mr. Fernandez stated that not only will there be positions added, half of the division will be going through a restructuring phase. There are too many programs in the Personnel, Workforce and Succession Planning and Organizational Development, and the Labor and Performance Management sections. The pandemic has worsened the issue along with the impacts of HR audits done by the State Personnel Board, State Controller's Office, KPMG's annual financial audit, as well as the World Lottery Association. HR has been struggling, particularly in the area of safety. Director Johnson has been a huge proponent of the safety of Lottery employees and it remains a high priority. The Human Resources Management Team and the Executive Office has been looking at the problems for years and know this will be transformational for the division, but it

will serve the more strategic needs that the Lottery has at this time from the Human Resources programs.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(c). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(c) and was seconded by Commissioner Stern. The motion passed unanimously.

d. Request to Add Statistician and Information Technology Auditor

Deputy Director of Internal Audits, Roberto Zavala, requested Commission approval to add a Research Data Specialist I, and a Staff Management Auditor, Specialist. Internal Audits is responsible for providing independent, objective auditing and consulting services to Lottery management. A critical part of providing these services is to have the necessary professional skillsets that can effectively assess critical Lottery programs. These positions will allow Internal Audits to provide management with assurances that the respective programs are effectively operating.

Commissioner Mills stated that Information Technology (IT) is constantly changing and evolving and using outside firms affords access to lots of different skill sets if a large firm is being used. She asked how Mr. Zavala envisions supporting the new positions to make sure they stay abreast of emerging technology, and if the positions will still be supported in some ways by outside resources if there is specialty knowledge that might be needed for specific types of audits.

Mr. Zavala stated that while outside consultants do bring a lot of knowledge and expertise, it can also be very limited in the particular engagement that they have at the time. While staff learns from the consultants and vendors, they try to take their knowledge and implement that as they move forward, but it is not institutionalized as the Lottery would like. Mr. Zavala would like the IT Specialist to be able to not just simply do a one-time review, but rather continuously do auditing through the years. The organization needs to mature in its IT processes and having a one-time engagement will not benefit the Lottery. The position of Information Technology Auditor would be able to handle questions regarding cybersecurity, whether it is looking at cloud computing or IT related situations.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(d). No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(d) and was seconded by Commissioner Mills. The motion passed unanimously.

9. Commissioner General Discussion

Chairman Ahern congratulated Deputy Director of Internal Audits, Roberto Zavala on his upcoming retirement and thanked him for 13 years of service to the California State Lottery.

10. Scheduling Next Meetings

The next Commission Meetings are tentatively scheduled for January 28, March 25, May 27, and June 24, 2021.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward.

12. Adjournment

Meeting adjourned at 11:09 a.m.