

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – March 17, 2022

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 the meeting at 10:10 a.m.)

Commissioner Keetha Mills

California State Lottery staff and presenters:

Alva V. Johnson, Director

Fernando Aceves, Chief Counsel

Jim Hasegawa, Deputy Director of Business Planning

Paula Negrete, Deputy Director of External Affairs

Nicholas Buchen, Deputy Director of Finance

Jennifer Chan, Deputy Director of Information Technology Services

Sharon Allen, Deputy Director of Sales and Marketing

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 March 17, 2022 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 January 27, 2022, minutes. Commissioner Mills made the motion to approve the minutes of the January 27, 2022, Commission Meeting and was seconded by Commissioner Stern. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director Alva Johnson provided an estimate of Lottery sales through March 5th. Sales are over \$6 billion, which is 9% above the sales goal and 9% higher than Lottery sales over the same time period last fiscal year. Scratchers[®] distribution sales are over \$4.75 billion. These games have continued to see strong year-over-year sales growth. Currently, Scratchers sales are pacing 12% ahead of last year's sales and 9% over goal.

The multi-state games, which include Powerball[®] and Mega Millions[®], have sales over \$674 million combined. Powerball sales have remained strong with two jackpots over \$600 million, leading to sales above goal and ahead of the pace set last fiscal year. Sales for Mega Millions are \$268 million and are slightly below goal this year.

Sales for SuperLotto Plus[®] and the Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby[®], are both pacing on par with their respective goals and last fiscal year's sales. Hot Spot's[®] sales through early March continue to exceed goal with sales exceeding \$272 million so far this year. During the first week of February, which also coincided with the Lunar New Year, Hot Spot set an all-time weekly sales record of nearly \$8.48 million. Year-to-date sales are tracking 14% ahead of last fiscal year's sales.

Contributions to public education figures are based on the Lottery's monthly cumulative financial sales report through January 31st. The February financials were not yet ready at the time the report was prepared. Through January, total sales are running 7% ahead of goal, while contributions to education are tracking 15% ahead of goal. Currently, total estimated contributions to education are over \$1.1 billion. This is \$250 million greater than goal and \$100 million more than estimated contributions to education through January of last fiscal year.

Commissioner Stern congratulated Director Johnson on the outstanding results with the revenue growth and the contribution to education. Chairman Ahern asked if there was a correlation to the pandemic and sales? Director Johnson asked Deputy Director of Business Planning, Jim Hasegawa, to provide a more detailed answer. Mr. Hasegawa stated that there was a decline in sales in the initial months of the pandemic as players were not visiting drug stores or supermarkets, however the smaller retailer stores were less impacted in terms of sales. Most of the Lottery's products were impacted, however although the public was uncomfortable going to theaters, restaurants and travelling, they wanted some diversion and a little bit of entertainment, which lead the Lottery to actually having record sales because the products were easily accessible in places such as supermarkets and gas stations. Mr. Hasegawa stated that the marketing team is working to re-engage

the Lottery's casual players and hold on to the loyal players who have continued to play during the pandemic.

b. Audit Committee Update

Commissioner Mills provided an update on the Lottery's Audit Committee. Ms. Mills recognized Commissioner Stern for his partnership and leadership to the Audit Committee. Ms. Mills stated that the Audit Committee Charter, which was approved at the November Commission meeting, requires that the Audit Committee report significant audit findings and report on the overall performance and structure of internal audits to the Commission on an annual basis.

The purpose of the Audit Committee is to assist the Lottery in fulfilling its oversight responsibilities related to the integrity of the Lottery's internal controls, the performance of the internal audit function and compliance with legal and regulatory requirements and department policy and procedures. The Audit Committee met in October and again in January and the committee discussed and approved the Internal Audit Plan. The Internal Audit team presented reports on the status of a vast number of internal and external audits that are ongoing at any point and time across the Lottery. The Committee also discussed audit findings and action plans that have been developed to address key findings. Staffing and the workload structure of the Internal Audits Department was also discussed to ensure staff is maximizing impact and efficiency. Commissioner Mills reported that there are no audit findings that were deemed significant enough to warrant elevation to the Commission.

Discussions within the Committee have also focused on continuous improvement. The new department leadership has provided a fresh perspective on the opportunity to review the department's own processes and procedures and focus a bit more on training and development of staff to make sure they are following the applicable standards and rules and requirements of the internal audits function. The mission is to add value to the Lottery by providing quality auditing and consulting and risk management services. The goal is also to streamline processes and provide valuable, sustainable recommendations for continuous improvement throughout the organization.

Commissioner Stern thanked Commissioner Mills and Deputy Director Sara Sheikholislam for their leadership and Director Johnson for his support. The Audit Committee is a relatively new group that is building the foundation of what the future State Audit program will look like and will continue to evolve.

c. Problem Gambling Awareness Month

Paula Negrete, Deputy Director of External Affairs, provided information on Problem Gambling Awareness Month which is nationally recognized during the month of March. In California, problem gambling awareness advocates, like the

Lottery, treatment experts and others from the gambling industry, work in collaboration with the California Department of Public Health's Office of Problem Gambling to raise awareness on the important and serious issue of problem gambling and promote the 1-800-GAMBLER number where individuals impacted by gambling disorders can seek treatment. Individuals can receive free and confidential assistance from a licensed therapist who specializes in gambling disorders. The Lottery stands out as a significant partner for the campaign given its more than 23,000 retailer locations and many communication channels.

The Lottery's promotional efforts for Problem Gambling Awareness Month includes internal communication to its employees, communication to its retailer partners and mass communication to the players and the general public. The Lottery's collective efforts to support Problem Gambling Awareness Month are a significant part of the Lottery's responsible gaming program that has been internationally recognized with the highest certifications by the World Lottery Association.

Chairman Ahern asked if the Lottery funds the entire California Problem Gambling program. Ms. Negrete stated that the Lottery helps partially fund the Gambling Help Line and the Lottery also supports the National Holiday campaign of "Gift Responsibly." She stated that the treatment services programs are funded by others in the gambling industry, as well.

7. Consent Calendar

8. Action Items

a. Contract for Independent Financial Services Auditor

Deputy Director of Finance, Nicholas Buchen, requested Commission approval to enter a three-year agreement with Weaver and Tidwell LLP (Weaver) for independent financial audit services.

Commissioner Mills questioned why the Lottery only received one bidder and why KPMG did not rebid on the work. She also requested additional information on the solicitation process and if there were any lessons learned from the solicitation to try to ensure the Lottery receives numerous competitive bids.

Mr. Buchen stated that KPMG was aware of the solicitation and the company chose not to bid so that they could focus their efforts around the Bay Area. As far as lessons learned, the solicitation was actually done twice – once in the summer with only one bid received. After receiving the proposal, staff realized that it would have been beneficial to include more detail in exactly what the Lottery was looking for in this audit. The solicitation was repackaged, and the Request for Proposal was resubmitted, however again, there was only one bidder. Mr. Buchen stated that staff utilizes the State's Fi\$Cal system to look for

prospective bidders and there is a wide list of California firms for these services, as well.

Ms. Mills asked if the Texas-based firm of Weaver had operations in California and Mr. Buchen responded that their biggest office is in Los Angeles. Ms. Mills hopes the firm can leverage their Texas experience and utilize California-based employees, which would be ideal for the California Lottery.

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

b. ServiceNow Renewal

Deputy Director of Information Technology Services, Jennifer Chan, requested Commission approval to enter into a 30-month agreement to renew the existing licensing for ServiceNow's Information Technology Business Management and Information Technology Service Management modules to support the enterprise-wide digital workflow platform.

Commissioner Stern stated that on the new business processes, staff is looking to automate leveraging the platform over time. Mr. Stern asked Ms. Chan for her thoughts on the company's other areas that could be leveraged or other areas for automation. Ms. Chan stated that there were a lot of areas being considered now such as automating the Public Request Acts requests, human resources processes as well as some document management processes. There is a long list that staff is working on to prioritize them with the Lottery's business partners.

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

c. Alcone Marketing Group Contract

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval for a seven-month contract with Alcone Marketing Group for promotions and retail marketing services through December 31, 2022. This will allow for essential promotional and retail marketing initiatives to continue while permitting the completion of a comprehensive and competitive solicitation.

Chairman Ahern asked how staff will handle the end of the contract on December 31, 2022. Ms. Allen replied that they are in the process of the current solicitation. This will yield a new contract with that vendor transitioning between the firm that

receives the new contract and the existing vendor. Commissioner Mills requested information on the solicitation process that was used, which is used by other state agencies. She also asked for examples of additional improvements that were made to the process after further review. Ms. Allen stated that the new Procurement Services and Support Unit took a fresh look at the process and added another layer of quantitative scoring into the process. Staff also performs a post evaluation and continues to learn and improve. Staff also looked at best practices from the Association of American Advertising Agencies and the Association of National Advertisers. They issue joint guidelines for solicitations. Subsequently, the Lottery made adjustments based on those guidelines because it is a continually changing industry and staff want to make sure they are attracting the best-in-class vendors.

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 Nathaniel Kirtman. The motion passed unanimously.

9. Commissioner General Discussion

10. Scheduling Next Meetings

The next Commission Meetings are tentatively scheduled for May 26 and June 30, 2022.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. Nelly Castillo, founder of Vendetta Entertainment, provided information on her company, which participated in a recent Request for Proposal (RFP). She expressed her disappointment that the RFP requirements were unattainable and contradictory to the California Lottery's efforts to include small businesses such as hers. Roland Mourning of Auto Lotto Scratcher Inc. requested information on how to present his product to the California Lottery.

12. Adjournment

Meeting adjourned at 10:49 a.m.