

STATE OF CALIFORNIA  
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING

**TIME:** 10:00 a.m.  
**DATE:** Thursday, November 19, 2020  
**PLACE:** Meeting held remotely via Microsoft Teams

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

**California State Lottery Commission**

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Chair of the Commission  
Commissioner

Peter Stern  
Vice Chair of the Commission  
Commissioner

Nathaniel Kirtman, III (joined meeting at 10:07 a.m.)  
Commissioner

Keetha Mills  
Commissioner

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Director

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Roberto Zavala  
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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

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**November 19, 2020**  
**Sacramento, California**

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**CHAIR AHERN:** Good morning to each and every one of you.

Today's date is November 19<sup>th</sup>, 2020. It is 10 o'clock in the morning. We are conducting our meeting virtually again this morning, so we'll call our Commissioners' Meeting to order, and we'll ask that you all please rise for the reciting of the Pledge of Allegiance, if you don't mind. And please join in with me.

(The Pledge of Allegiance was recited.)

**CHAIR AHERN:** And thank you very much to the IT people; that was a very nice addition to the Pledge. All right. Item Number 3 is the Roll Call of Commissioners. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman? Commissioner Stern?

**COMMISSIONER STERN:** Here.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Present.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Here. All righty, thank you very much. Item Number 4 is Consider Approval of the Agenda. Commissioners, does anyone want to suggest any changes

today's agenda in any respect?

**COMMISSIONER STERN:** (Inaudible) changes.

**CHAIR AHERN:** Hearing none, do I hear a motion to adopt the agenda? I think that was Peter saying a motion?

**COMMISSIONER STERN:** So, move.

**CHAIR AHERN:** Okay, is there a second?

**COMMISSIONER MILLS:** I'll second.

**CHAIR AHERN:** All right. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman? Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

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

**COMMISSIONER KIRTMAN:** (Overlapping).

**CHAIR AHERN:** We have Item Number 5, which is Approval of the Minutes of the September 24<sup>th</sup>, 2020. Are there any corrections to the minutes? Hearing none, do I hear a motion to approve the minutes for the September 24<sup>th</sup>, 2020 Commission Meeting?

**COMMISSIONER MILLS:** I'll move to approve.

**COMMISSIONER STERN:** I'll second.

**CHAIR 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 Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. We're getting off to a great start. All right, thank you very much. Item Number 6 is Informational Items, and we have Director's Comments with Director Alva Johnson.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman. I am here to present our Sales Report for the most recent period for today's Commission meeting. Let's go to the first slide, please. Total Lottery sales through November 7<sup>th</sup> were just below \$2.77 billion. This amount is 13 percent higher or about \$317 million above the sales goal for the first 19 weeks of this fiscal year and represents a 21 percent increase over sales through this same time period last year. You may recall from the last Commission meeting that this table displayed Scratchers sales based on ticket distribution to our retailers minus the returns from those retailers. This is the same methodology as used in our

financials. The continued strength in our sales this year comes predominantly from the Scratchers product line, but our Daily Games and Hot Spot products are also contributing factors. In terms of an overview by product, Scratchers sales based on ticket distribution are about \$2.23 billion through early

November. Year-to-date sales in this product category are about 18 percent ahead of its goal through this time period and are 28 percent higher than last year's Scratchers distribution sales during the first 19 weeks of this year. The pace of the new Scratchers game introductions has returned to its normal monthly rhythm compared to just one new set of new games being launched between March and June. You might also recall that in September, we introduced a set of PAC-MAN-themed Scratchers games, and these have performed quite strongly for us. In a few slides, I will provide some additional details on why Scratchers sales have risen above pre-pandemic levels. For Powerball and Mega Millions, combined sales total \$187 million to date. These games are well below goal, and about 10 percent below last year, largely due to below-average jackpots. The largest jackpot seen in the first four-and-a-half months of this fiscal year are in the current sequences \$179 million for last night's Powerball draw and \$176 million for Tuesday's Mega Millions draw. SuperLotto Plus

sales currently stand at just \$80 million for the fiscal year and are very close to the pace needed to achieve its annual sales goal. The jackpots have been rolling since early September; however, one lucky ticket from Norwalk, California matched all six numbers for a \$26 million jackpot this past Saturday. The Daily Games, which included Daily 3, Daily 4, Fantasy 5, and Daily Derby, continue to see strong sales this fiscal year. With over \$151 million in sales, this category is currently running 12 percent ahead of goal and 12 percent higher than last year's sales through the same time period. Through the first four-and-a-half months of this fiscal year, Hot Spot sales totaled more than \$125 million and are 10 percent above goal, as well as outpacing last year's sales by nine percent. Next slide, please.

We also assess how the Lottery is performing in terms of its most important measure, the contributions to our beneficiary, public education. These calculations are based on the Lottery's monthly financials through October. Over the first four months, our sales were running 15 percent ahead of its goal, while our contributions to education were about nine percent ahead of our goal over that same time period. Because our Scratchers sales are well above their sales goal and jackpot game sales are behind their goal, our contributions to education have a



more modest increase than sales due to the fact that Scratchers have lower profit margins than jackpot games. Next slide, please.

While I previously presented data on the ups and downs of Scratchers consumer sales during 2020, staff have developed a new measure that quantifies the pandemic's impact on the Scratchers' retail inventory levels. It measures the number of Lottery retailers having ticket inventory for the Scratchers games included in the month's ideal game mix or IGM. These represent the key games that should be present at all retailers.

By crunching big data of all ticket shipments and the redemption of small prizes won in these packs, estimates of retail inventory on hand can be calculated. The baseline period prior to the pandemic is comprised of January to February and the first couple of weeks in March. During this period, Scratchers consumer sales averaged \$104.5 million per week, and typically nearly 90 percent of retailers had ticket inventory for all or nearly all of the key Scratchers games. As the stay-at-home orders began and the pandemic confronted people's lives, consumer demand for Scratchers significantly declined, with sales averaging just under \$89 million per week, a 15 percent decline from the pre-pandemic period. With softer demand, the supply chain was generally able to maintain retailer inventory levels

with just a slight dip in the number of retailers having tickets for the key games. In May and June, consumers began seeking ways to entertain themselves at home, and consumer sales of Scratchers rose, averaging \$103 million per week, nearly returning to pre-pandemic levels. This trend mirrors what most other U.S. lotteries and many other entertainment products experienced. During this period, we begin to see signs that ticket inventories were beginning to be depleted by this growth in sales. The average figure for retailers having all the key games dropped to just 38 percent across May and June, and we begin to see some locations that are missing ten or more key games. By July and August, supply chain issues begin to have a noticeable impact on Scratchers sales, as more than a quarter of our retailers were out of stock on more than half of the key Scratchers games. This resulted in average consumer weekly sales dropping to less than \$95 million, a steeper decline than we typically would see during the summer season. Adjustments to Lottery operations in the distribution centers were made that increased our ability to ship tickets to retailers. From September to mid-October, supplies were being replenished, resulting in more retailers having all of the key games and few locations not being able to sell even half of these games. This factor, along with the launching of two sets of new games in September, one of which was the set of PAC-MAN-

themed Scratchers, resulted in consumer sales skyrocketing to an average of \$113 million per week. This is significantly higher than the pre-pandemic levels. Next slide, please.

This chart displays the new retail inventory measure on a weekly basis and is updated through the week ending November 7<sup>th</sup>. In terms of the percentage of our retailers having ticket inventory of all key Scratchers games or all but one of these products, around 60 percent of the locations currently meet that criteria, which is a dramatic improvement over the figure seen in July and August. However, these levels have yet to reach the pre-pandemic scores. The next slide, please.

While sales of jackpot games have continued to improve, they're still not back to pre-pandemic levels. This chart compares the week's sales in Powerball, Mega Millions and SuperLotto Plus to a previous week prior to the COVID-19 pandemic that contained similar jackpots for that particular game. The longer bars going down represent a larger decline in sales. Over the past few months, sales have typically been less than ten percent below pre-pandemic levels for similar jackpot amounts. As you can see, this compares quite favorably to declines ranging from 20 percent to 40 percent during the early days of the pandemic. This combination of the long dry spell without a very large

jackpot and a drop-in sales from pre-pandemic levels for any size jackpot results in lower than anticipated Draw Game sales across all U.S. jurisdictions. As such, both entities that govern these multi-state games, the Mega Millions Consortium, to which we belong, and MUSL for the Powerball game, are investigating ideas to improve the sales performance of these products. Next slide, please.

Recently, industry sales information became available for last fiscal year. We wanted to present some of these highlights of this sales data. California sales of \$6.63 billion represented a decline from Fiscal Year 2018-2019. Since that earlier year saw a huge \$1.6 billion jackpot, it would have been difficult to match that year's record attainment. However, our sales were just the fourth largest in the U.S. behind New York, Florida, and Texas, dropping us from second place, a position that we held for the past four years. Next slide, please.

This past fiscal year saw quite a variation in the sales performance of the largest lotteries in the U.S. California, along with New York, New Jersey, and Massachusetts saw significant sales declines. On the other hand, Texas experienced growth of seven percent, and Florida had gains of about five percent during Fiscal Year 2020. Since the occurrence of Powerball and Mega Millions jackpots are the same, one potential reason to account for these

findings involves the impact of COVID-19 on lottery sales, particularly Scratchers, being different across the nation. Next slide, please.

This chart isolates sales from April, May, and June and then compares 2020 with the prior year. For the most part, New York, along with nearby states such as New Jersey, Rhode Island, and Massachusetts had sales declines along with California. During these months, the pandemic hit New York and the Northeast the hardest, and California took early and aggressive actions to try and flatten the curve by instituting the nation's first statewide stay-at-home order. In contrast, there were a number of states whose response to the emerging public health crisis was very different. Next slide, please.

In terms of other rankings, our Scratchers sales were the third highest in the U.S. We were number one last year. We continued to generate the most sales for both Mega Millions and Powerball. Our SuperLotto Plus game continued to have the second-highest sales figure for an in-state lotto game; Florida was first in this category. Compared to similar games in the U.S. Lottery industry, our Hot Spot game placed sixth in terms of sales. Finally, annual per capita sales in California are \$168.00 this past fiscal year. This puts us at just 26<sup>th</sup> in the nation, which is just one place lower than we held last year. Massachusetts comes

in at number one in per capita sales at \$756.00. Finally, I'll just say that although our sales declined to a greater extent than many other jurisdictions last fiscal year, our 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 we are currently ahead of our sales and contributions to education goals. That concludes our sales report for this period. I want to thank again our Deputy Director of Business Planning Jim Hasegawa and his team for preparing this analysis and these remarks.

**CHAIR AHERN:** All right, thank you, Alva. We'd like to move on to -- any questions for Alva. Any Commissioners?

**COMMISSIONER STERN:** I do have a quick question as it relates to this dip in inventory. So, if we start seeing incremental shutdowns that take place in light of our growing sales, do we foresee any inventory deficiencies, or do we have plans around that as we move into the coming months and quarters?

**DIRECTOR JOHNSON:** I want to invite our Deputy Director of Business Planning Jim Hasegawa to respond to that question. Also, Deputy Director of Sales of Marketing Sharon Allen may have some insight as well. Jim?

**MR. HASEGAWA:** Okay. Yes, I do think that the amount of shipments that have been going out recently, the

volume of them, has gone up quite dramatically, and so I think the capacity for the warehouses, of the distribution centers to distribute tickets has risen back to the pre-pandemic levels. In terms of contingency efforts, if there are different shutdowns, I'll let Deputy Director Allen speak to that.

**MS. ALLEN:** Hi. We have been -- as I reported in the last meeting, we've made a number of modifications to the warehouse operations to restore distribution. However, we're still not back to normal. We're carefully adding in more games to the mix right now in order to maintain timely delivery. So normally, we have 40 to 45 games available for retailers, but we're controlling that inventory to be just 24 so we can quickly move through the shipments and make sure that our retailers get them quickly. However, beginning this month and moving forward, we're adding more because we've been able to bring more staff in, make modifications to our distribution centers, add more pick-and-pack stations, add more staff, but we want to gradually increase and grow and get back to where we were, so we're taking a controlled approach so we don't get -- have the same challenges as we did earlier in the summer.

**COMMISSIONER STERN:** Thank you. No further questions on the topic.

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

hearing no other questions. Alva, do you want to talk about Audit Committee Report and turn it over to Roberto?

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman. We have a few more informational items, as you noted on today's agenda. The first is a report from our Chief of Internal Audits Roberto Zavala regarding the Audit Committee. Roberto?

**MR. ZAVALA:** Thank you, Alva. Good morning, Chair Ahern and Commissioners. It is my privilege to provide the Commission with the Lottery Annual Audit Committee Report. This report represents the Committee's efforts of the last fiscal year. Can you move the slide, please?

Just a brief background on what will be covered: We're going to be going over some items regarding the orientation and meetings of the Audit Committee over the last year, some audit reports that have happened both externally and internally, some significant areas of improvement, as well as areas noteworthy to the organization. Also, in addition to that, we'll be looking at the -- my office gets an audit, so to speak, of the standards, and we'll give you an update on the results of that audit, and also some staffing and certainly budget items for the Audit office and some challenges in the coming years. Next slide, please.



So, some background for the Commission. The California State Lottery Commission established the California State Lottery Audit Committee in 2008. The purpose of the Committee is to ensure the independence of internal audits, to ensure that audit findings are reported to the Commission, and to provide guidance to the Commission on financial statements, compliance issues, and audit performance. The Committee last met in November 2018 because Committee members vacated their positions after their Commission appointments expired. The Commission re-established the Committee by appointing the following Commission Members during its November 21<sup>st</sup>, 2019 meeting. This included Commissioner Keetha Mills, who was appointed as the Committee Chair, Commissioner Rowena Libang-Bobila was appointed as a Committee Member, and Commissioner Peter Stern was appointed as the alternate Committee Member. Following the November meeting, the employment of Commissioner Libang-Bobila with the Commission expired in January 2020, requiring Commissioner Peter Stern to step in as a permanent Committee Member. Next slide, please. So, with the orientation meetings over the last year, I provided Committee Members with the Audit Committee binders to help orient them to the Committee. We've met, so far in 2020, on the following dates as noted: January, March and May. The Committee fulfilled its requirements under this

charter to meet at least twice per year. The Committee anticipates meeting one final time before the end of the year. Next slide, please.

These internal audits include special-request audits engaged in its plan for the current year and in-compliance audits to comply with standards, Lottery Act, or other government requirements. One of the audits of note is the Information Security Management Review. This review is done on an annual basis to assure that we maintain our certification with the WLA and ISO. We were instrumental in helping the pay at the Sacramento District Office Pilot Project. We looked at how we can make payments at district offices and provided some guidance to them. We also conducted a Contract Development Services Audit. This audit was performed after we had an audit by the State Controller's Office. This audit yielded findings such as procedures and policies that needed to be updated, as well as other items to make sure that our contracting process is sound. We also looked at Construction Contracts Audits that occurred over the last few years concerning the building of our district offices and our other offices such as the distribution centers north and south. We recommended certain requirements when we do invoices of contractors, and they are on their way to improving their procedures in that area. We looked at mail handling as another highlight of

some of our audit efforts over the years. This audit was important for the Director, who came in during that time where we -- he was getting a tour of our mail-handling process, and as a note to the Commissioners that our mail room is where we receive all of our claims for payments, and certainly, that was an important piece of security and efforts that we want to make sure that the folks who are submitting their claims have integrity and security with their claims. So, happy to report that a lot of the items that we did note back in 2015 had been addressed during the follow-up audit. Rounding out some of the other audits that are of importance are the IT Procurement Audit. This audit here is a focused audit that is currently underway. This audit was requested by the Directorship to make sure that procurement audits while they are happening for specific IT procurements, that they are done consistent with our current Lottery practices. So, highlighting those items. I'll move on to the next slide, please.

Some external audits. The State Controller's Office, as you can tell, it has the lion's share of external audits. They include compliance audits such as the David&Goliath Contract, which I'm happy to report that there were no findings on that one. They are required to do quarterly trans reviews. These trans reviews focus on how much money that we are getting to our education fund on a

quarterly basis. Happy to report that those reviews do not yield significant issues as we move our money to education. The other audits highlighting here are the Payroll Process Audit. This audit is an item that yielded some findings for us. We are on our way to make sure that we are guarding our transactions and any kind of compliance efforts that we have to be in line with the California Human Resources Department and the State Controller's Office and their controls. We do get a Risk Assessment once every three years. The State Controller's Office completed their latest one in September of this year. We look at that Risk Assessment as a means to further plan any kind of audit engagements as well as assisting the State Controller in their efforts to oversee the Lottery itself. One other audit that I want to mention is the Ellen Degeneres Show. This audit is coming to a close and in the next couple of months, you'll be seeing some updates on the report itself. We will be responding formally to this engagement and look forward to any kind of corrective actions as well that may be coming as a result of that. One other audit that I'd like to highlight for this External is the California State Auditor. They came in in February of 2020. They noted several findings that the Lottery is reporting back to the State Auditor. Our next response is due at the end of February 2021, and the Lottery has implemented most of their recommendations and looks to

that final report at the one-year mark to give you an update later on how we are doing. The other three audits are audits that we do on an annual basis. They include audits that require us make sure that we maintain our certification with the WLA and ISO, and then of course the financial audit that happens once every year. So, please move to the next slide.

So, just a quick discussion on some of the improvements as a result of these audit engagements. Procurement Process findings were noted in the CSA Audit, the State Auditor, the State Controller's Office and some of the audits that my office had as well. The Travel Expense Claims Audits were noted in a recent audit by the State Controller's Office. In fact, the State Controller's Office is coming back to review as a follow-up on their past engagement. I believe the Lottery is certainly ready for this engagement. We've taken a lot of corrective actions, and hopefully, they deem fruitful with the State Controller's Office. Some Contract Management findings were noted in the State Controller's Office and Internal Audits. The contract management process has been part of the Division of Operations. They are moving forward with training in that area to improve that part of our business process. Training programs for Retailers and Employees. This audit, the State Controller noted that audit back in

2019 and certainly one of my engagements as well. This particular program has been on hold currently because of the pandemic. These training programs required the assembly of most of our employees at certain locations and at our retailers as well, but because of social distancing, the responsibilities of these programs are being re-thought in a different manner. More to come on these as they move forward. As most audits have yielded, they've always been up requesting or recommending updates to policies and procedures. These audits were, as noted, in the State Auditor or the State Controller and certainly my audits. The last one, Budgets. Happy to report that the Lottery has been making changes in its budgeting processes by introducing zero-based budgeting. It was introduced in the Sales and Marketing area, and now it's being implemented in the rest of the organization, and it'll be moving forward as a standard requirement for budgets. That's it for these areas. Please, next slide.

Some noteworthy items that I'd like to make sure we mention. Since 2014, the Lottery has been certified by the World Lottery Association under its Security Control Standard. In addition to this standard, lotteries must be ISO 27001- certified before receiving WLA certification. I'm happy to report that the Lottery received re-certification for ISO 27001 recently, this week, and it is

good for the next three years. We are expecting to receive notice from the WLA on its re-certification as well. So, kudos to the organization for that effort. As a final note on the first two items, California Lottery is the only state in the U.S. with this designation, so this is certainly a very important recognition. And finally, the World Lottery Association also recognizes the Lottery for its responsible gaming by certifying it to a Level 4 for its Responsible Gaming Framework. Next slide, please.

Just a brief discussion about the Lottery's Internal Audit Office and its performance under the standards. In accordance with the international standards for the professional practice of internal auditing, ISPIA, the Internal Audit Office requested and received a Quality Assessment Report on December 5<sup>th</sup> of 2019. The report noted the following opportunities for improvement. Audit Committee meetings did not occur during the last few years, so we rectified that. As you can tell, we do have Audit Committee Meetings reoccurring with the re-establishment of the Committee. An Annual Risk Assessment should be documented more formally. Currently, my efforts in documenting the Risk Assessment process and how that yields my audit plans will be going through a more formal process in the coming years. One other note as well, continued professional education requirements, such as training for my staff: We

have a policy in the Internal Audit Office to have 80 hours of training once every two years. A few of the staff did not meet that goal, so we are making amends on making sure they do receive the proper training. In conclusion, the report noted that the Internal Audit Office internal quality control system was suitably designed and operating effectively to provide a reasonable assurance of conformance with ISPIA, for assurance in consulting engagements during the period July 1<sup>st</sup> through June 30<sup>th</sup> of 2019. So, I don't have anything more on that item, but certainly, I can take any questions, if you have any.

**CHAIR AHERN:** Yes, Roberto, I have one, about the training.

**MR. ZAVALA:** Sure.

**CHAIR AHERN:** So, is there an obvious reason why we're not getting the 80 hours? Is it because of the opportunity for people not willing to go to training; they'd rather avoid it, or a lack of training classes, or do you have an idea of why we're -- what the reason is for not making 80 hours?

**MR. ZAVALA:** So, the 80-hour requirement, it's not because of the lack of training that has been made available to staff. This is more so an issue of workloads that they have. The training reminders that we do send out have to be more timely, and also certainly, it's incumbent



upon me to make sure that these individuals get monitored more routinely on their training efforts, and so we are making amends to correct that deficiency, but it is not because of a lack of training.

**CHAIR AHERN:** All right, so it's probably employees looking at the system and then saying, I'd rather be at work than go to training in some other faraway land?

**MR. ZAVALA:** Certainly, it is a challenge. We do have a budget for training that can accommodate this, but we certainly want to make sure that everybody receives the appropriate training for the 80 hours per two-year period.

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

**MR. ZAVALA:** Uh-huh. Next slide, please. Just a small discussion on the challenges in the coming years. As part of my office's responsibility, we do an annual assessment of the Internal Audit Office, and we noted two challenges that I want to bring forward to the Audit Committee and the Commission itself. So, the Commission accumulates vast amounts of data through its many business processes, independently analyzes data for trans issues, and audit sampling is an important factor during the audit planning and when assessing risk. While the Lottery practices data analytics and other functions, a formal data analytics skill set in Internal Audits should be considered. You know, this is an area that I do really want to

emphasize, because we are moving forward with a lot of great efforts in collecting data. I think harnessing a lot of this information in the future is going to be key to the success of the organization and certainly to the Audit Office. The second item I want to mention is that the information technology. As the Commission implements new technologies to improve effectiveness and efficiencies of its operations, it is critical that the Internal Audits Office have the capability and skill set to independently review, assess and consult management on the risks of introducing new technologies. Currently, the Internal Audit Office does not have this capability, but should consider it in the coming years. Again, this is an area of focus that I want to make sure that I let the Audit Committee and the Commission know that information technology is going to become an even more important piece as we move forward during this pandemic and that the technology itself should be assessed completely from all different perspectives and not simply implemented without question. So, I think those are two areas of focus that I wanted to make sure that I could address today. And with that, I am through with my presentation, and I'd like to address any questions you have.

**CHAIR AHERN:** All right, does anyone have questions for Roberto?

**COMMISSIONER MILLS:** Hi, Chair Ahern, this is Commissioner Mills. I did have a couple of comments that I'd like to make. So, first, Roberto, I just want to say thank you for the presentation. I really appreciate all the information and the transparency around the work that's happening in the Internal Audit function. It's really remarkable the number of audits that you manage in your shop, not only within your own team, you know, identifying risk areas and making sure that we're well controlled, but also managing outside audits. And I think I said this at the last meeting. I have never been of an organization that has been more audited than the Lottery Commission, so it's a big job, and it's a lot of work. I will also say that it makes me feel really good about the Lottery's work to make sure that we have a well-controlled operating environment and that we are being good stewards of our funds and that we are making sure that our controls are in place to maximize our funding to education. The areas of improvement are really important, and that's an auditor's role, right, is to go in and try to find all the things that are going wrong to try to make them right, but I also want to acknowledge that part of your work, too, when you go in and look for the things that are wrong is that you find a lot of things that are going right, and so I really appreciate that transparency around the continuous improvement and

highlighting the ways that the Lottery can continuously improve, and I do want to take a moment to celebrate all of the things that are not on that list that could be or could have been on the list that the Lottery is doing really right to make sure we're maximizing our funds to Education. I also understand that you have announced your retirement, so I want to take a moment to celebrate you and to thank you for your commitment to the Lottery and its work. You are clearly very passionate about the work that you do and have established yourself there at the -- the auditor is not always the most popular person in any organization, and it's been clear to me and through my tenure that you've established yourself as a very respected member of the team and a real business partner to your colleagues. So, thank you for your service to the Lottery. Thank you for your service to California and thank you for your contributions to Education. Bravo, and I wish you all the best in retirement.

**MR. ZAVALA:** Thank you, Commissioner Mills, for all the kind words and certainly, yes, after 13 years with the Lottery, I'll be, as they say, hanging up my Number 2 pencil and my 10-key calculator and changing over to the next chapter in my life. Thank you.

**COMMISSIONER KIRTMAN:** Congratulations, Roberto; that's great.

**MR. ZAVALA:** Thank you, Commissioner Kirtman.

**CHAIR AHERN:** Yeah, well done, Roberto.

**MR. ZAVALA:** Thank you, Chair.

**CHAIR AHERN:** Okay. I think we're on to Item Number C, Facilities Master Plan Update with Derick.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman, and I'll just add on in the previous item, we will sorely miss Mr. Zavala. His years of experience and deft hand at managing our issues have really helped the Lottery, and we really appreciate the standards that he has set. So, moving on to the next item on the agenda, 6c, we have for you Commissioners an update regarding our Master Plan, our Facilities Master Plan. Our Facilities Service Section Chief, Derick Brickner from the Operations Division is here to present. Mr. Brickner?

**MR. BRICKNER:** Thank you, Director, and good morning, Commissioners. I'll wait for the slide to kind of come up. Thank you, Ben. So, yeah, as the Director mentioned, my name is Derick Brickner, and I'm the Facilities Services Section Chief in the Operations Division. I oversaw the development and implementation of the Lottery's Facilities Master Plan, which I'm very happy to share, has been successfully completed. I will be providing an update on the program for you all today. I will go over the history of the Facilities Master Plan,

describe its goals, talk about some of the highlights and lessons learned we encountered through its implementation. I will also highlight the collaborative effort it took across the organization to successfully complete the program. So, in November of 2013, the California State Lottery Commission approved the Facilities Master Plan, which contemplated the replacement of its nine leased facilities throughout the State with owned and operated facilities. Next slide.

Here's a map that shows where they're located throughout the State. The program included the replacement of eight district office facilities and the Southern Distribution Center. The Lottery had traditionally leased its facilities outside of the Sacramento area. The Lottery already owned, operated, and maintained three facilities in the Greater Sacramento Area, including its Headquarters downtown, a district office in Natomas, and its Northern Distribution Center in West Sacramento. Next slide, please.

The main intent of the Facilities Master Plan was to provide a long-term cost savings to the Lottery. In 2012 the Lottery commissioned a Lease-or-Buy Analysis by a real estate consultant, which concluded there was a clear, long-term financial advantage to owning facilities rather than leasing them. Additionally, owning and operating facilities ensure ongoing operational needs are met and enhanced

stability and flexibility of the Lottery's operations. This initiative also aligned with a key pillar of the Lottery's Strategic Plan at the time, which was to improve the Lottery's infrastructure. As the program was implemented, it coincided with the issuance of Governor's Executive Order B-18-12 and the associated Green Action Plan, which had notable goals of all new or major renovations of state buildings larger than 10,000 square feet be LEEDS silver-certified or higher, 50 percent entering design by 2020 and 100 percent after 2025 be zero net energy, meaning that they produce as much energy as they consume over the course of the year and that they include electric vehicle charging stations. So, although not a specific goal outlined in the Facilities Master Plan, the new buildings were designed to comply with the goals of the B-18-12. Next slide, please.

Over the last seven years, the Lottery has successfully completed the plan to transition the leased facilities to owned and operated facilities. On July 18<sup>th</sup>, 2020, the Lottery finalized the Facilities Master Plan with its opening of the Milpitas District Office. This large, multi-year, multi-million-dollar program required a highly collaborative effort among many of the Lottery's divisions, including Operations, Information Technology, Security and Law Enforcement, Sales, Finance, Human Resources, and Executive. The program would not have been successful

without the hard work of teams throughout the whole organization. On the next slides going forward, I'm going to highlight some of the notable lessons learned, experiences and outcomes from the program's implementation and share some of the before-and-after photos of the leased facilities versus the new, owned facilities. So, you can go ahead, Ben.

So, the Santa Fe Springs District Office was the first project of the program, and the timeline was driven by the landlord's termination of the lease we were in. We found a property right down the street from the existing office that was a desirable size, a single story, and had minimal site-work needs. The main drawback was the 1980 vintage building needed to be significantly retrofitted to meet current building code and seismic standards. State Building Code require state-owned buildings receiving upgrades greater than 25 percent of its current value to be brought up to current seismic standards. Therefore, the roof had to be heavily modified and tied into the exterior tilt-up walls. The office is highly efficient and includes a rooftop photovoltaic system in order to achieve zero net energy. To reach zero net energy, the facilities are designed to be highly efficient to minimize the number of solar panels that are needed to offset energy consumption. In 2016, the Santa Fe Springs District Office was the second



state building certified as zero net energy. I just want to highlight that the prior lease space of 8,941 square feet was \$28.00 a square foot annually and was increasing at a rate of 0.03 percent per year. The new space is 12,840 square feet and costs approximately \$19.00 a square foot annually, including estimated maintenance and operating expenses. We got a brand-new building that's a highly efficient facility that's 40 percent larger for approximately 30 percent cheaper when looked at from an annual expense perspective. Next slide, please.

The Southern Distribution Center was the next project. It was a brand-new, cold-shell warehouse facility, which meant it had no interior improvements for mechanical systems, which was ideal because we were not paying for improvements we intended not to use. The facility is also highly efficient and is confirmed as zero net energy. At this stage in the program, an analysis was conducted to determine the most cost-effective delivery method. We looked at ground-up construction, ground-up modular construction, remodel of an existing facility, and remodel of a cold shell. The remodel of a cold-shell facility was the most cost and time-efficient method, although that ended up being the rarest opportunity, and the Southern Distribution Center project ended up being the only time we completed a project with that delivery method. The

commercial real estate market for the type of properties the Lottery required in the locations it needed were highly competitive. Because of the specific requirements the Lottery had for its facilities, it was exceedingly difficult to find properties, and it took significantly longer to find properties than originally estimated. Ben, can you move to the next slide?

We can see the before-and-after photos of the facility that we originally leased and then the new facility that we moved into. Next slide.

Here's a before-and-after photo of the facility that we moved out of and the facility we moved into in Fresno. The Lottery had a relatively easy time finding a property in Fresno. Next slide.

Here are some interior photos that show kind of the design and quality of the facilities that we constructed. All the facilities look very similar and mirror what we also have here at Headquarters in terms of fixtures and furniture. So, next slide.

In San Diego, the Lottery had the unique opportunity to purchase the entire building it had currently been leasing. The landlord who owned the property and operated his business out of the other half had notified the Lottery it was looking to sell the property and was seeking approval to show it. The timing worked out perfectly, and

the Lottery was able to express its interest and negotiate the purchase of the property. The Lottery worked out a construction phasing plan to remodel the vacant half of the building while the other half remained open. The staff and materials were relocated to the newly remodeled half while the existing half was then remodeled, and the entire project was completed. Next slide.

The Rancho Cucamonga District Office facility was a relatively easy find at a good price and saw a smooth construction process. The final State Fire Marshal sign-off and Certificate of Occupancy was delayed due to the assigned inspector being diverted to wildfire response, and one struggle throughout the program was uncertainty and delays caused by the constrained resources of the State Fire Marshal during the wildfire season specifically, although they were a really good partner overall in the approval process for our construction drawings. Next slide, please.

So, the Chatsworth District Office and the Costa Mesa District Offices are two-story facilities in the most densely populated areas of Los Angeles. It was difficult to find single-story facilities with sufficient parking. Two-story facilities use more energy per available photovoltaic area, so these facilities have shade canopies coming off the side of the facility to provide more area to soak up the sunlight. So, you can see in the picture of the Chatsworth

District Office we have some shade canopies over the upper second-story windows. Those are solar panels. If you move to the next slide, we'll see that at Costa Mesa as well. So, here's the previously leased facility and the new Costa Mesa District Office. You can see off to the right the large canopy. Next slide.

Here are a couple before-and-after photos of the interior of the Costa Mesa District Office. You can see the DSR room where we hold monthly meetings for the sales staff -- not right now during COVID, but previously. You can see the before-and-after photos of the spaces. Next slide.

The existing leased facility in South San Francisco had an expiring lease and a new landlord. The South San Francisco is where we had our leased facility prior to moving to Richmond. The rent for the leased facility was set to double at renewal time. The Lottery had to find a property quickly to avoid unfavorable terms at its leased facility. We found a near turn-key facility that met Lottery operational needs in Richmond, and we completed ten improvements on in roughly four months, by far the fastest of any of the projects. Next slide.

The Milpitas District Office was the only ground-up construction project, a property in the San Francisco Bay Area, and specifically near Silicon Valley, was exceedingly difficult to find at a reasonable price. The Lottery found

an undeveloped parcel in an otherwise developed area of Milpitas. The only real issue that happened during this project was the emergence of the COVID-19 pandemic, which stopped construction with the initial stay-at-home orders. Absent that delay, the project went very smoothly. Next slide.

In summary, ideal properties were difficult to find, so the program took longer to complete than originally estimated. Although program budgets were increased due to actual construction costs, the Lottery saved money on all property purchases, and projections show that long-term cost savings when compared to lease costs. In addition, the Lottery will benefit from brand new, highly efficient facilities that are designed to meet current and future operational needs. This was a successful program that demonstrated a collaborative effort spanning the whole organization. The Facilities Master Plan was an exciting program that created a great value for its beneficiaries, public education, the public, and employees for years to come. It will reduce long-term expenses, provide stable and flexible facilities to maintain and adapt to operational needs and provide brand new, highly efficient facilities for staff to operate and the public to visit. This will allow the Lottery to maximize its contributions to Education as well as meet the goals outlined in the Governor's Executive

Order B-18-12. With that, I'm done with the program update and closeout. If you have any questions, I'd be happy to field them now.

**CHAIR AHERN:** All right, thank you, Derick. Any Commissioners with questions?

**COMMISSIONER MILLS:** This is Commissioner Mills. I just wanted to make a comment. So, first I just want to say, congratulations on the successful completion of this program. I really -- I commend you on -- they're just beautiful facilities, so, just really fantastic -- all on brand, beautifully branded, probably the best billboard ever for the California Lottery. No doubt lots of people all across California drive by these new buildings with the very well-branded California Lottery logo on them, and so I think that's a wonderful thing as well, and I know that once we get past the pandemic and are all able to come together again, that these new buildings and new facilities are really going to go a long way with staff morale as well. They could be beautiful places to work. But I think most of all, the parts about the coming in under budget, coming in below projections, making this transition in a way that's going to generate more money towards our mission I think is the most commendable part of this program, so kudos all around and really appreciate the opportunity to learn more about this project.

**MR. BRICKNER:** Thank you very much.

**CHAIR AHERN:** All right. Thank you, Derick. All right. I'll unmute for Holiday Scratchers. You're still on mute.

**DIRECTOR JOHNSON:** Sorry about that. Just thanking again Section Chief Derick Brickner for the work on that. It was a long effort, and we've, at the Lottery, greatly benefited from it. Appreciate that very much. Next item, Mr. Chairman, is 6d. This is an update on our Holiday Scratchers Campaign. Deputy Director Sharon Allen will present.

**MS. ALLEN:** Hi. Good morning, Chairman and Commissioners. While we load up our presentation here, I am going to provide a very brief overview of our Holiday Scratchers Campaign. The holiday season is a critical -- oh, there we go, all right, we're set -- the holiday season is a critical sales period for the Lottery. It is one of our two highest sales periods along with Spring. Last year, the Holiday games represented 15 percent of total Scratchers sales during the holiday period. However, they also helped attract and drive interest in the overall category, fueling sales across all Scratchers games. Ensuring strong sales during this season is vital to help the Lottery fulfill its mission. However, we also recognize that this year is different. California consumers' daily lives have been

impacted by the COVID-19 pandemic. Economic uncertainty remains throughout the holiday season. The pandemic has shifted traditional shopping behavior and the way Californians will celebrate this year. Family and friends gain greater significance to consumers due to challenges of separations. Our marketing strategy this year encompasses this altered environment to reflect the shifts in consumer behavior and mindset. So, first we'll start off with the games. Next slide, please. We have four new holiday games that were released at the end of October: \$1.00 Holiday Cheer; it's a very on-trend color palette with six festive scenes and a very popular To-From gift tag. A \$5.00 Peppermint Payout. Research revealed that it has strong appeal for women across multiple player segments, and it is also our first ever Scratch 'n Sniff game for the California Lottery. Ten-dollar Merry & Bright, with a shimmering metallic to add value. In research, it was loved by all player segments. Some didn't want to even give it away; they wanted to keep it for a gift for themselves, and we'd love that. A \$20.00 2021 ticket. Last year, this 2020 game -- we did a 2020 game, and it remained strong well into the Spring, so we're bringing it back this year with the special sparkle and metallic to give it some glitz. For a campaign strategy and approach, we wanted to continue to build on our successful gift-giving strategy from years past and position



Scratchers as the perfect gift for those you appreciate. Scratchers are a meaningful gift. They're unique, fun, and affordable, and giving Scratchers can create cheer and surprise for those who may not expect it. What other gift gives you the chance to win up to, you know, thousands and millions of dollars, a million dollars. We also wanted to adjust of course to the effects of the pandemic and by using a tone that inspires and brings hope to consumers without being too melancholic or opportunistic. We selected media channels that fit with current consumption and demand for fresh content, and it's a cluttered environment out there. There's a lot of brands with holiday messages, so it was very important we stand out among the other brands in the marketplace by developing an integrated marketing campaign with resonant creative across all touchpoints. We have a phased campaign approach. The first phase began with the on-sale of the tickets and on October 26<sup>th</sup>, really reaching our core consumers with owned assets. And then we're expanding with paid advertising starting next week and ramping up through the busy holiday period. Finally, after Christmas, going into a more focused effort to promote the 2021 ticket that will run through New Year's into the beginning first weeks of January. Our marketing support through all phases for our own channels will be heavy promotion on our calottery.com website, our player email

newsletters, and extensive organic social media. We also have two 2<sup>nd</sup> Chance Promotions. We'll have strong presence at our retailers, over 23,000 retailers, with signage, our electronic point-of-sale monitors, and ticket messaging. Our paid advertising will hit all touchpoints. We're going to reach people where they are -- traditional, linear, television, streaming video, out of home, terrestrial radio, streaming audio, and across all tactics on digital -- mobile and desktop display, search, video pre-roll, social media, including influencers, as well. For our coverage across the state, we will be all statewide with all of our paid digital tactics, and we're able to get in our top seven markets for TV, radio and out of home from a local media. So, we're really going deep, and all Californians will be receiving our messages.

The next slide gives a quick snapshot of our Campaign Calendar, and you can see how the different media channels and platforms roll out over the weeks of the campaign with that Thanksgiving to Christmas really heavying up because we know that's when people are looking for gifts. Now, moving over to our campaign creative, this is how it comes to light. Our main campaign visual, our key art, this is what is used, and we can go to the next slide.

This is what is used across many of our tactics. Wanted to create a unique look that is memorable. It can be

ownable. We want to break through that crowded holiday clutter that we talked about and really invoke that uplifting, optimistic feeling with the give joy headline and, plus, it beautifully showcases the variety of our holiday tickets. For our 2021, we created a version of this key art with give cheer that really focuses on the 2021, so that will be layered in throughout the campaign and really utilized in the phase three.

Here on the next slide are just a few examples of how this key art comes to life across different tactics, whether that's print or outdoor or retail or digital, it creates that iconic, memorable impression, and no matter where people see it, we're imprinting that mind, give joy, give Scratchers across all of the other tactics. With video, we have the opportunity to tell more of a story and create an emotional connection that is memorable and will create an intent to purchase. This year, the pandemic has brought a re-evaluation of what truly matters. The need to look out for our neighbors and communities is more pressing and top-of-mind than ever. After a difficult year, consumers want to recognize and show appreciation to the important people in their lives and find ways to feel optimistic and hopeful. We can help Californians show appreciation for others by positioning Scratchers as the perfect gift -- meaningful, uniquely fun, thoughtful, and

affordable. During the holidays, appreciate the special people who may not expect it by giving the gift of Scratchers. So here is the English-language version of our video spot that then will -- there we go; hopefully it'll will work.

**(Video plays).**

And it gives me goosebumps. And that's just a small sampling of all of the different marketing and promotion that you'll see over the weeks ahead. I wanted to take a moment to recognize our Assistant Deputy Director of Marketing, Whitney Alderson, and the entire marketing team, as well as our vendor partners for all of their efforts on this campaign. They continue to do great work, shifting to remote during all of this because we're planning Holiday months and months, you know, beginning of the year. As soon as this ends, we're already planning, and product is in development. So not only do they shift-remote, but they also were -- we had to keep on top of the changing marketplace and consumer's insights as we're navigating through the pandemic and the different impacts across California, and just, we're so proud of this campaign and can't wait to share the results with you in a future meeting. So, thank you, and with that, I can answer any questions.

**CHAIR AHERN:** All right, do any Commissioners

have any questions for Sharon?

**COMMISSIONER STERN:** Yes. This is Commissioner Stern. Sharon, congratulations on the PAC-MAN launch and fantastic, creative on the Holiday offers; it's really looking good. Just does it well. Just curious around video. I've received a lot of positive feedback as it relates to the PAC-MAN promotional videos and whatnot. Do you have a sense and from a sales and marketing attribution perspective on how much video's driving ticket sales versus other channels, and obviously, an increased emphasis on video, just curious on your perspective there?

**MS. ALLEN:** We do a media-mix modeling that does an aggregate on a higher level, and video definitely does drive more of that. You've got the more persuasive storytelling. I'd have to get to back to you with our exact breakdown, but we are investing based on past reviews, more in video with this Holiday Campaign, and it allows us to get the message and create the impact. Video is way more persuasive across the board. But that said, there is certain efficiencies and effectiveness with things like out of home. It's that quick reminder. They work all together, and as a cash-based business, it's hard for us to fully put that attribution in all of that, and we know that everything kind of works together so that if somebody sees a spot on their TV, and then they see a pre-roll on YouTube, and

they're driving down and see that billboard or the point-of-sale signage, that it all kind of comes together, especially with our products that are less of a planned purchase and more of impulse.

**COMMISSIONER STERN:** Yeah, that makes a lot of sense, especially with a multi-touch marketing attribution and whatnot, but congratulations again on all of the creative there. So, really impressive, but any point of view on that I would love to see.

**MS. ALLEN:** Okay, definitely, we can get more into that in the future.

**COMMISSIONER STERN:** Thank you.

**CHAIR AHERN:** All right. Thank you, Sharon. Alva, thank you for your presentation. I think we go on to Item Number 7, which is Consent Calendar. And there are no items on the Consent Calendar, so we'll proceed to Action Items. That moves us to Action Item 8a and back to Sharon.

**MS. ALLEN:** Okay. I'm here again. I am here presenting Item 8a, which is our African American Marketing and Advertising Services Contract. The Lottery's Contract for African American Marketing and Advertising Services is expiring on January 31<sup>st</sup> of 2021. In preparation for a new contract, the Lottery released an RFP in March to solicit bids from qualified agencies to provide African American marketing and advertising services for the Lottery. To

create wide awareness among potential bidders, the RFP was advertised and promoted extensively, including within the advertising trade media, as well as small business and state government procurement listings. The Lottery also sent notices to agencies registered in our vendor database as well as to a list of the top agencies in this specialty. In this RFP, the Lottery is looking is looking for an agency team with deep expertise in the African-American segment, 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 African-American consumer segment. Additionally, the Lottery sought an agency that would be able to work collaboratively with the Lottery, as well as our other agency partners. 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, Public Affairs Communications, Finance, Security and Law Enforcement, and Business Planning, as well as representatives from Procurement Services and Support. 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, agency's location, and some basic business requirements such as being licensed to do business in California. Agencies

were required to outline their qualifications to provide case studies that demonstrate their strategic capabilities and creative experience. Nine agencies submitted proposals in response, and four agencies advanced to phase two. This phase consisted of virtual meetings with agencies focusing on a chemistry and culture check. The goal of these 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 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 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 who brought expertise in sales marketing in African American 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 a stand-alone and comparative basis. Following the final presentations and submission of the staff plan and compensations 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 Quantasy and Associates, based in Los Angeles, would provide the Lottery with the best value in all the desired areas. Quantasy demonstrated the ability to provide innovative and impactful solutions for the Lottery to achieve our goal of successfully motivating the African American consumer in an innovative and effective way. The quality of Quantasy's strategic thinking, integrated marketing planning and creativity are exemplified by its strong ratings in the three phases of the RFP. Quantasy consistently rated "Exceeds" or "Significantly Exceeds" in all phases of the evaluation process. Staff recommends that the Commission approve awarding a contract to Quantasy and Associates to provide African-American Marketing and Advertising Services for five years, with the option to extend the contract for up to two additional one-year terms, with the maximum total expenditure authority of \$15 million. And finally, this is an important contract for the Lottery and the Marketing team. The process is extensive, taking well over a year to complete. It was also released in mid-March, right when the stay-at-home orders were first issued, so the entire process had to be pivoted to virtual, which

was no small feat. I would like to sincerely thank the many Lottery staff in all divisions who worked on this project for their hard work and dedication and particularly Chairperson Agnes Kramer. And with that, I'd be happy to answer any questions about the recommendation.

**CHAIR AHERN:** All right, thank you very much, Sharon. Do any Commissioners have any questions or comments on Action Item 8a? All right. Hearing none, does any member of the public want to address the Commission regarding Action Item 8a? I don't think we have any public, but it'll just be a formality, and we'll keep doing that. Do I hear a motion to approve Action Item 8a for the African American Marketing and Advertising Service Contract?

**COMMISSIONER STERN:** Move it.

**CHAIR AHERN:** We got a motion by Peter. Is there a second?

**COMMISSIONER MILLS:** I'll second.

**CHAIR AHERN:** We have a second. There's a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. Thank you very much, Sharon.

**MS. ALLEN:** Thank you.

**CHAIR AHERN:** With that, we'll move on to Action Item 8b, Amendment to Extend the Contract Term for Statewide Architectural Services. Tiffany?

**MS. DONOHUE:** Thank you, Chairman. Hopefully, everybody can hear me. I lost Internet connectivity, so I am calling in on my phone. My name is --

**CHAIR AHERN:** We hear you just perfect.

**MS. DONOHUE:** -- okay, great. So, I'm here to present Agenda Item 8b, which is an Amendment to Extend the Contract Term for the Lottery Statewide Architectural and Engineering Services Agreement with LPAS, Inc. LPAS has been the Lottery's primary support vendor over the life of the Facilities Master Plan Program, which Derick Brickner just gave you an overview on, and the Lottery seeks to continue utilizing LPAS in an upcoming project with the Lottery's Northern Distribution Center in West Sacramento.

You may recall at this time last year, I presented an overview to the Commission on the Lottery's current and upcoming facilities-related projects. One of those projects was the planned major renovation of the Northern Distribution Center. Since then, with the impact of the

COVID pandemic, the Lottery is continuing with portions of that remodel project but has scaled back other components. This amendment will allow the Lottery to take on the critical warehousing and distribution changes to the warehouse and to the facility. We will be relocating pick-and-pack stations and expanding the pick-and-pack stations. We will be expanding warehouse racking, which will give us increased capacity for inventory management and storage. We will be replacing aging systems, such as our HVAC system, which is critical for our employee health and safety, and we will be replacing the roof on the facility, as it has reached its end of life. This amendment will allow the project to progress through these different phases. We expect that it will be completed by December of 2021. Our current agreement, however, expires in March of 2021. So, this amendment will extend the contract through March of 2022, allowing sufficient time for the completion of the project but also allow for any construction delays that the Lottery may encounter. There are no additional funds required for completion of this project. The contract itself already has sufficient contract funds to pay for the upcoming services. So, with that, what the Lottery is requesting and recommending is that the Commission approve the third amendment to the LPAS contract to extend the contract term for one year, through March 20<sup>th</sup> of 2022, and

that will allow us sufficient time to complete the NDC Remodel Project. And I'd be happy to take any questions you may have.

**CHAIR AHERN:** All right. Do any of the Commissioners have any questions or comments on Action Item 8b? Hearing none, does any member of the public want to address the Commission at this time regarding Action Item 8b? Hearing none, do I hear a motion to approve Action Item 8b, the Amendment to Extend the Contract Term for Statewide Architectural Services?

**COMMISSIONER MILLS:** I'll move to approve.

**CHAIR AHERN:** We have a motion. Do we have a second?

**COMMISSIONER KIRTMAN:** Second.

**CHAIR AHERN:** A motion and a second. Are there any questions or comments? Hearing none, will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, the motion passes.

Thank you very much.

**MS. DONOHUE:** Thank you.

**CHAIR AHERN:** With that, we'll move on to Action Item 8c, and that'll be Chris Fernandez to talk about Request to Add Positions to Human Resources Division.

**MR. FERNANDEZ:** Good morning, Commissioners. It's my pleasure to be here with you today. Human Resources Division requests 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 both personnel operations and safety.

Human Resources Division is responsible for developing and administering workplace programs that comply with the state's employment and labor laws and regulations. HRD currently has 37 authorized positions and is comprised of six functional areas that are primarily responsible for Employee Recruitment and Selection, Payroll and Employee Benefits, Health and Safety, Labor Relations, Training and Workforce Development, and Performance Management. HRD maintains strategic partnerships with each Lottery Division and provides critical services to the organization. Lottery employees and management alike rely upon the critical

services provided by HRD. Failure to properly staff these critical functions would adversely impact all Lottery divisions.

In conjunction with the reorganization of existing resources, this request seeks to add staffing to HRD to create a new Safety and Compliance section, a new Disability Wellness unit, and add additional staff to key HRD programs. The safety of Lottery employees is the Department's highest priority. In 2018, responsibility for safety was centralized in Human Resources Division. Since then, a long-term project has been underway to implement a safety culture Lottery-wide. Presently, Lottery has two positions dedicated to safety, and the COVID-19 pandemic has stretched these resources too thin, creating significant workload challenges and requiring shifting of resources throughout HRD to facilitate pandemic response. The development of a dedicated Safety Unit within a new Safety and Compliance section is needed to ensure the Department's obligations as an employer, pursuant to both CAL OSHA and other requirements, are met and that appropriate measures are taken to prevent workplace injuries. There will be significant need for these safety staff and resources even once the COVID-19 pandemic has come to an end.

Additionally, Lottery HRD is arguably one of the most frequently audited departmental Human Resource programs

in the State. This is in large part because of the connection to the gaming industry, Lottery revenues in excess of \$6 billion, a variety of stakeholders, and the interest of media outlets. Consequently, the programs HRD administers are subject to audit by external industry-related organizations in addition to multiple internal State control agencies. Response to these audits has required the redirection of existing HRD staff resources and reduced HRD's ability to effectively provide employee and management services. It is in the Lottery's best interest to staff HRD in a manner that will allow the programs to focus on dedicated management and staffing resources for compliance.

A separate but related concern is the need to devote additional resources to employee wellness and workplace injury management through the creation of a Disability Wellness unit. Effective employee health and wellness programs inspire employees to adopt healthy behaviors and reduce elevated health risks. As the Lottery's workforce continues to grow to meet the evolving needs of consumers, retailers and other stakeholders, the need for services such as reasonable accommodation, worker's compensation, and various specialized disability leave benefits increases as well. Again, dedicated resources are required to handle these specialized services and avoid redirecting resources from other critical areas.



As outlined in the memo, we request approval for one new Assistant Deputy Director position, CEAA, one new Staff Services Manager II position to oversee a new Safety and Compliance Section, one new Staff Services Manager I position to oversee the new Disability Wellness Unit, three new Analyst positions, one for the Disability Wellness Unit, one for the Safety Unit, and one for the Compliance Unit, and one Staff Services Manager I position for the Performance Management Office. This would be converting a current temporary position to a permanent position as there has been a clearly identified ongoing need.

Lottery staff recommends that the Commission approve the establishment of seven positions in HRD, along with the associated funding of approximately \$281,000 for the remainder of the Fiscal Year 2021. The full fiscal year cost of the seven positions is approximately \$840,000, which will fluctuate over time, based on bargaining contracts and salary range adjustments. Thank you for your time and consideration, and I will turn it over for any questions.

**CHAIR AHERN:** All right. Thank you very much, Chris. Do any of the Commissioners have any questions or comments regarding Action Item 8c?

**COMMISSIONER MILLS:** This is Commissioner Mills. I do have a couple questions. Thank you, Chris, for the presentation. It was really important and very helpful.

I'm wondering if you can talk just a little bit about your overall assessment process that took place to identify the needs within HR and to clarify. It sounds like this is part of an overall Department restructure to not only get the right people in the right seats in the right places within the Department so we're not just adding on to an existing structure. It sounds like you've done an overall Department review and restructure, and you're filling gaps based on a needs analysis, and I just wondered if you can confirm that that's what I'm hearing and talk a little bit about the process that you went through to identify the gaps. And then if you could also address the cost-benefit piece of that analysis as well?

**MR. FERNANDEZ:** Okay, thank you for those questions. So, I'll start with, yes, we'll be not only adding positions; this will be a restructure of half of the Division. So currently, we have three sections within the Human Resources Division. There is the Personnel Section and our new Workforce and Succession Planning and Organizational Development Section and our Labor and Performance Management Section. We've been looking at this problem for a number of years now. Effectively, all the programs that are under the Personnel side of the Division, there's just too many programs in each of those units, and it causes constant shuffling of resources. The pandemic has

certainly shown us and exacerbated that issue, but it's been a long-standing issue, particularly as the audits have been impacting us. And I think I said this -- maybe I didn't -- we have been under constant audit for the entire time I've been at the Lottery in the Human Resources Division, whether it's State Personnel Board, State Controller's Office, KPMG's annual financial audits, or, and then the World Lottery Association, et cetera. And so, we've really done a long-term look at where are we over-impacted, where are we constantly being stretched too thin, and how can we better manage this? And so, we looked at this for quite a while, particularly in the area of Safety. When we took on the Safety programs in 2019, we identified that it was too much to house along with the same unit and small number of staff responsible for disability management, reasonable accommodation, and that workload. So, we've been looking at this for a number of years. Certainly, with the pandemic hitting, we can wait no longer. You know, we really need to start looking at this, but this also comes from Director Johnson's leadership. I mean, in large part, he's been a gigantic proponent of the safety of our employees, and, you know, and it's been our highest priority, and he certainly has made it abundantly clear that that needs to maintain as our highest priority. There's definitely a direct impact to the bottom line in our contribution in Education. Injuries

are expensive, and employee disability leaves, et cetera, can be expensive as well when returning employees from injuries. We want to, for them and for the department, do what's best for the employee and get them back to work in whatever that looks like as soon as reasonably possible. So, there's definitely a correlation between the quick return and lack of injuries and the (inaudible). And let's see, what did I -- I think I did not cover part of your question. So, the assessment to -- so just to kind of recap. We started a number of years ago looking at these problems, HRD Management Team, working with the Executive Office, and we definitely do recommend this. We know this will be transformational for the Division, and it will allow us to start to serve the more strategic needs that the Lottery has at this time from our Human Resources programs.

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

**MR. FERNANDEZ:** Thank you.

**CHAIR AHERN:** All right, Peter or Nate, any other questions? All right, hearing none, does any member of the public want to address the Commission at this time regarding 8c? Hearing none, do I have a motion to approve Action Item 8c, Request to Add Positions to HRD?

**COMMISSIONER MILLS:** I move to approve.

**CHAIR AHERN:** We have a motion to approve. Is there a second?

**COMMISSIONER STERN:** Second.

**CHAIR 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 Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, the motion passes. Thank you very much. We'll move back to Roberto for Action Item 8d, Request to Add Statistician and Information Technology Auditor.

**MR. ZAVALA:** Thank you, Chair. So, I'm presenting to you Item 8d, a Request to Add a Statistician and an Information Technology Auditor. As you know, the Lottery's Internal Audit Office is responsible for providing independent audits to the Lottery management. A critical part in providing independent services is to have the necessary and professional skill sets. Currently, the Internal Audit Office lacks statistical and information technology skill sets in its professional staff. As a result, we are requesting these two positions.

A little bit of background on the two positions

that I'm requesting. The Lottery requires statistical services to provide management assurance that drawings are meeting expectations. If you are aware, we have an auditor that does a preliminary draw, but we like to also review the post draws as they come along. It's important for us; we've been doing this for 20 years through a contract. That contract expired in September 2019. We currently are providing minimal services by one-time purchase orders. After the contract expired, we solicited private statisticians but received no interest, unfortunately. We then contacted the UCD -- University of California, Davis and also UCLA, and we received bids by both universities; however, they were significantly higher than we expected. The university bids averaged at least 100 percent more than previously contracted rates; specifically, UCLA is \$300 per hour plus a 25 percent markup, while the UC Davis rate was \$200 per hour. By comparison, the combined salary and benefits of an internal statistician is about \$57.00 per hour. Instead of hiring a consultant, we are requesting to add a position with a significantly lower cost. With the IT auditor position, Internal Audits, as you know, is required to make sure that our staff has the knowledge and skills to perform their responsibilities. And back in 2006, before I came aboard, this position did exist in the Audits Office; however, when the person left the position, this position

was removed from the Internal Audit Office. Since then, we have hired vendors from time to time to address any kind of IT audit challenges, and we've also used Lottery staff over the years to fill in the gap, fill in for this particular skill set. In addition, instead of hiring a consultant for IT Services, we are requesting this position for institutional knowledge and also for certainly some stability in the office. This position will allow us to provide the Lottery with assurances that IT programs are effectively and efficiently operating. Therefore, we are recommending the Commission approve these two positions. Specifically, we are requesting a Research Data Specialist I as a statistician for the position. It'll cost the California Lottery about \$40,000 for the remainder of this fiscal year, and we are requesting a Staff Management Auditor Specialist for the IT position, and this will cost approximately \$43,000 for the remainder of this fiscal year. Annually, each position will cost approximately \$119,000 for the statistician and then \$129,000 for the IT position. Currently, the Lottery will use its administrative spending reserve for the current fiscal year because these positions were not part of my annual budget. And with that, I would be happy to answer any questions.

**CHAIR AHERN:** All right, thank you, Roberto.

Does any member of the Commission have any questions

regarding Action Item 8d?

**COMMISSIONER MILLS:** This is Commissioner Mills. I do have a question. Hi, Roberto. Thanks for the presentation. You know, when I think about these IT positions, you know, IT's constantly changing and evolving, and that skill set just has to really stay fresh, and sometimes the beauty of using outside firms is that you get access to lots of different skill sets if you're using a large firm. Can you talk a little bit about, like, how you envision supporting this new role to make sure that they get the real-time professional development that they need to stay abreast of emerging technology, and if you envision that this position may still be supported in some ways by outside resources if there is specialty knowledge that might be needed for specific types of audits? I just wondered if you could touch on that a little bit.

**MR. ZAVALA:** Yes. Certainly, that is a very noteworthy comment you made regarding the outside consultant. While they bring all of the knowledge and expertise, that knowledge and expertise is very limited in the particular engagement that they have at the time. Certainly, we try to learn through our consultants and through our vendors when they're here. We try to take their knowledge and implement that as we move forward. However, it's not institutionalized, as we would like. A case in



point would be whenever we have a specific IT question that's being presented to the Audit Office for consideration as far as the review, I've been challenged with trying to best address this, and I think what happens is that once we address that particular item, it's a short-term solution for a long-term gain that we're looking for. In the future, I would like this IT Specialist person to be able to not just simply do a one-time review but rather continuously do auditing throughout the years, because I think the organization needs to mature in its IT processes, and having one-time engagements will not get us there. This requires - - I'll call it constant maintenance, kind of like your vehicle; you need to make sure it's maintained constantly, and that way, it'll also be institutionalized within the Audit Office. I have been here for 13 years. I'll tell you, when I first got here, it was a brand-new position -- not the position itself, a brand-new position to me. We sell Lottery games. I had some experience in horse racing, right? I used to be on the Horse-Racing Board, but I'll tell you, over the last 13 years that I've been here, it's amazing how much institutional knowledge one can get, and as I leave, I think it's important for us to set ourselves up with these positions, because there is no doubt going to be more maturing of this organization over the years. I envision perhaps maybe online types of efforts that the

organization wants to do. This office needs to be there to help the Director say, is this secure? Is it worth it from a cost-benefit perspective? And certainly, all the items that are being considered in any kind of development of new products. My suggestion that this organization move forward in this IT area is to select someone who has the IT knowledge first, and then the Audit Office can train them to be an auditor. I think it's an important way of addressing this particular item because I've worked in other departments where we've had auditors, and we've trained them, and then as soon as they become productive, you know, they think they become more marketable, and they want to look for other opportunities, and that's always been a challenge with this type of position. However, I think with the right understanding about the individual and their career goals, I think this position would be certainly relied upon whenever we have any questions with, whether it's cybersecurity, whether it's looking at cloud computing, or for that matter, looking at anything that's IT-related. I hope I answered your question, Commissioner Mills.

**COMMISSIONER MILLS:** Thank you. That was very helpful. Thank you.

**MR. ZAVALA:** Okay. Uh-huh.

**CHAIR AHERN:** All right. Peter and Nate, any other questions?

**COMMISSIONER KIRTMAN:** (Overlapping).

**COMMISSIONER STERN:** (Overlapping).

**CHAIR AHERN:** Hearing none, does any member of the public want to address the Commission at this time regarding Action Item 8d? Hearing none, do I hear a motion to approve Action Item 8d for the additional statistician and IT auditor?

**COMMISSIONER STERN:** Move it.

**CHAIR AHERN:** We have a motion; is there a second?

**COMMISSIONER MILLS:** I'll second.

**CHAIR 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 Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Roberto, thank you very much. The motion passes.

**MR. ZAVALA:** Thank you.

**CHAIR AHERN:** Next on our agenda is Item Number 9, which is the Commissioner General Discussion. Do any of

the Commissioners have anything they'd like to bring up at this time? Hearing none, we'll move on to Item Number 10, which is Scheduling Next Meetings. We tentatively have Commission meetings set for January 28<sup>th</sup>, March 25<sup>th</sup>, May 27<sup>th</sup>, and June 24, all in the year 2021. Alva, does that sound correct to you?

**DIRECTOR JOHNSON:** Yes, sir, it does.

**CHAIR AHERN:** Okay. Next item is Action Item Number 11, which is Public Discussion. I don't think we have anyone on the call, but we want to make sure we cover it for formality. If there's anybody else, Alva?

**DIRECTOR JOHNSON:** I don't think so.

**CHAIR AHERN:** Then I call for adjournment, and if you wouldn't mind, I would like to adjourn this meeting on behalf of the great Roberto Zavala, for his 13 years with the Lottery, making this one of the best lotteries in all the world. You've done a great job. You should be very proud. I wish you all the best. Happy Thanksgiving and Happy Holidays. Great job.

**MR. ZAVALA:** Thank you, again. Thank you, Sheriff. Appreciate all the comments.

**COMMISSIONER KIRTMAN:** (Overlapping).  
Congratulations.

**CHAIR AHERN:** Well, we'll miss that beautiful smile and that -- the lovely hair. Okay. All right. Bye,

everybody. Thank you very much. Be safe and be virus-free.

**COMMISSIONERS:** (Overlapping).

(End of Recording)

**(MEETING ADJOURNED)**

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I have subscribed this certificate at Elk Grove, California, this 27th day of November, 2020.

*Martha J. Hanna*

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Martha J. Hanna

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