

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – September 19, 2023

Sacramento, California

1. Call to Order

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:03 a.m.

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

Vice Chair Keetha Mills

Commissioner Tiffani Alvidrez

Commissioner Anthony Garrison-Engbrecht

California State Lottery staff and presenters:

Alva Johnson, Director

Fernando Aceves, Chief Counsel

Nicholas Buchen, Deputy Director of Finance

John Lowden, Deputy Director of Security and Law Enforcement

Jim Hasegawa, Deputy Director of Business Planning

Jennifer Chan, Deputy Director of Information Technology Services

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

4. Consider Approval of the Agenda

Chairman Ahern asked if any of the Commissioners wanted to make any changes to the September 19, 2023, proposed agenda. Commissioner Mills made the motion to approve the agenda and was seconded by Commissioner Garrison-Engbrecht. The agenda passed unanimously.

5. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the June 29, 2023, minutes. Commissioner Garrison-Engbrecht made the motion to approve the minutes of the June 29, 2023, Commission Meeting and was seconded by Commissioner Alvidrez. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director, Alva Johnson, stated that total fiscal year sales for just the past two months are close to \$2 billion, which will be the fastest the Lottery has hit this sales milestone in the Lottery's history. The jackpot games of Mega Millions®, Powerball® and SuperLotto Plus® are the main sources for this better-than-expected start to the fiscal year. Individually, each jackpot game is significantly exceeding its goal through August. Combined, the Lottery is already coming close to hitting its 6-month jackpot sales goal just two months into the fiscal year. Scratchers® are also selling well, contributing over \$1 billion to Lottery sales since the beginning of July. Through August, the estimated funds for education are significantly exceeding the goal by 40%.

b. Information Technology Services Overview

Deputy Director of Information Technology Services, Jennifer Chan, provided an overview of the people, processes and technology of the Information Technology Services Division (ITSD) at the Lottery. The division has a commitment to continuing to reduce technical debt, expanding the modernization efforts, and strengthening the partnership with the business. She also discussed enhancing and improving the quality of its services and service delivery and increasing the security posture. She hopes to foster a sense of teamwork as staff works to construct the Lottery's future, focusing on improving delivery of products and on how ITSD can better serve the Lottery community from back-office operations to players and retailers.

Commissioner Mills asked how many budgeted positions were in ITSD and Ms. Chan responded that there are 137 positions. Ms. Mills requested more information on the financial assessment. Ms. Chan stated that the Gaming System contract has a separate Financial Assessment Plan, which means there are a lot of nuanced service-level agreements that the vendor must meet in order to fully meet performance. The Lottery's Gaming Management oversees evaluating the service-level agreements and anytime the vendor misses a service-level agreement, staff assesses them based on that Financial Assessment Plan.

Commissioner Mills requested additional information about the IT audit function within the IT Department. Ms. Chan explained that ITSD partners very closely with the Lottery's Internal Audits Unit on specific audits that may come from the State Controller's Office or the Multi-State Lottery Association. Staff will answer any inquiries and once an audit report is finalized, the IT audit function tracks any sort of corrective actions that may be needed. ITSD will work with the respective subject matter experts to report back to the Internal Audits unit and that unit will compile everything. Separately, the Lottery's Internal Audits Unit does regular

reviews of all the risks and potential areas to audit when they develop their annual Audit Plan.

Commissioner Mills commended Ms. Chan on her presentation and leadership over the Information Technology Services Division. Ms. Mills appreciated the comprehensive level of detail and transparency, and it is important as Commissioners, to understand the operation and how the contracts fit into the operation. She stated that the more efficient ITSD can be to help the Lottery's staff across the organization, the more money will be contributed to Education.

Chairman Ahern asked if the Lottery's ITSD division is separate from the California Government IT staff or if they collaborated. Ms. Chan stated that they are not separate and in fact she participates in the State IT Executive Council, and she is a representative of all the independent departments that participate. The Lottery's IT Department however, is exempt from most of the State requirements. She indicated that the Lottery does receive the State's alerts and staff evaluates and assesses them so that they can implement the necessary controls when they are received.

Chairman Ahern also asked if the Lottery Act has a redaction requirement for the storage of data. Ms. Chan stated that she was not aware of anything in the Lottery Act, but staff is working on a number of projects regarding data retention. Mr. Ahern asked if there were backup systems for the data and if they were independent of the Lottery. Ms. Chan replied that the Lottery has backup systems and there is also a secondary backup site, plus the Lottery's vendors have a secondary backup site as well offsite where data is backed up.

Commissioner Garrison-Engbrecht thanked Ms. Chan for her summary and was able to see firsthand staff's diligence in improving the systems.

7. Consent Calendar

8. Action Items

a. Investment Policy and Investment Strategy

Nicholas Buchen, Deputy Director of Finance, requested the Commission to approve with no modifications, the Lottery's existing Investment Policy and Investment Strategy for 2023, which focus on: 1) ongoing investment activity in support of SuperLotto Plus, Mega Millions, Powerball, and various Scratchers games and 2) maintenance of the Lottery's Investment Portfolio that includes monitoring and mitigating potential investment risk.

Commissioner Mills asked if staff know how the Lottery's Strategy and Policy compares to other statewide lotteries and if there were other lotteries doing things differently. Mr. Buchen stated that within the lottery industry, the majority

are like the California Lottery in that they are part of the state governments and in comparison, the California Lottery is right in line. He is not aware of lotteries that are in the private sector having their own investment shops that do day trading. Each lottery has a distinct mission to provide to their beneficiaries.

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 Garrison-Engbrecht. The motion passed unanimously.

b. Insurable Risk Analysis

Nicholas Buchen, Deputy Director of Finance, requested Commission approval of the recommendations included in the Lottery's Analysis to appropriately manage the Lottery's insurable risk. The recommendations should best enable the Lottery to maximize the amount of supplemental funding provided to public education.

Commissioner Mills stated that the assessment for cybercriminals happens once every five years and asked if the team could evaluate the insurance coverages maybe on an annual basis to make sure the Lottery is covered, given how rapidly risks can change. Mr. Buchen stated that he did provide feedback to the cross-divisional team and regardless of if the Lottery self-insures or insurance is purchased, it would make sense to analyze this more frequently than every five years since the environment is changing so frequently.

Chairman Ahern asked if training is provided to Lottery staff on the risks of cybercrime. Mr. Buchen answered that the Lottery is very diligent about ensuring that staff are aware of the latest threats and how to potentially avoid them. There is mandatory Security Training that automatically enrolls employees each month.

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

c. Motorola APX 8000 Radios and Associated Equipment Purchase

John Lowden, Deputy Director of Security and Law Enforcement (SLED), requested Commission approval for an agreement with Motorola Solutions, Inc. for the purchase of 55 Motorola APX 8000 radios, associated equipment, and maintenance services for the Security and Law Enforcement peace officers.

Commissioner Mills asked Mr. Lowden to expand on any policies or procedures that might be in place to make sure critical equipment gets reviewed more frequently to avoid an emergency purchase. Mr. Lowden stated that there is now a more stable leadership team in SLED, and therefore all of the technology and equipment used will be evaluated by SLED's internal audit system which will be addressed in formal replies within the division itself. Also, these types of equipment and technology will be incorporated into the Strategic Plan. Chairman Ahern stated he was glad that SLED was following the guidelines of some new regulations regarding encryption from the California Department of Justice. Mr. Lowden said SLED is working through this purchase with Cal OES so that they are in full compliance.

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 Alvidrez. The motion passed unanimously.

d. Advertising Tracking Services Contract

Jim Hasegawa, Deputy Director of Business Planning, requested Commission approval of the award of the Advertising Tracking Services Contract to Ipsos, with a contract term of November 1, 2023, through October 31, 2027, with two optional one-year extensions.

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

Commissioner Alvidrez made the motion to approve Action Item 8(d) and was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

e. Internal Control System Contract Renewal

Jennifer Chan, Deputy Director of Information Technology Services, requested Commission approval of a five-year contract with Elsym Consulting, Inc., with two, one-year extension options beginning October 14, 2023, and ending October 13, 2028. In accordance with Multi-State Lottery Association and World Lottery Association requirements, the Lottery must provide an Internal Control System that independently validates Gaming System transactions in real-time.

Commissioner Mills asked about the research that was done to make sure the Lottery received the best price, given that there was only one firm that could work on the proprietary areas of the system. Ms. Chan explained that staff analyzed the existing contract with Elsym, and what they charged for these services and then did a cost comparison on their new proposal to make sure it was reasonable

and comparable for the period of time being provided. Staff also looked at the duration and then the change in time to evaluate any cost increases to make sure they were fair and reasonable.

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

Commissioner Mills made the motion to approve Action Item 8(e) and was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

f. Copier Refresh

Jennifer Chan, Deputy Director of Information Technology Services, requested Commission approval to purchase 69 new Sharp copiers and printers with a 5-year maintenance agreement. The procurement will refresh existing copiers that have reached end of life throughout the department.

Commissioner Alvidrez stated that it would be helpful to the Commissioners if they reviewed a draft Enterprise Refresh Plan so that they have a more comprehensive understanding in the sense of how these fit with the contracts, with the procurement, and with maintenance. Ms. Chan said she would be presenting at a future Commission meeting, the Digital Refresh Needs and said she would also include the Enterprise Refresh Plan.

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

Commissioner Alvidrez made the motion to approve Action Item 8(f) and was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

g. Public Website and Cloud-based Infrastructure

Jennifer Chan, Deputy Director of Information Technology Services, requested Commission approval to award the public website services contract to ICF Incorporated, LLC for an initial term of five years with two, two-year extensions and one, one-year extension November 1, 2023, through October 31, 2028.

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

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

h. Lottery Gaming System Contract Amendment 23

Jennifer Chan, Deputy Director of Information Technology Services, requested Commission approval to extend the current International Gaming Technology Lottery Gaming System Contract to address the Lottery's Player Direct/2nd Chance platform. This platform is outdated, unsecure, and contains significant prevalent IT security and technical risks. The proposed amendment would include a seven-year extension, ending on October 31, 2033, with five additional one-year extension options.

Commissioner Mills asked for confirmation that this contract is being brought forward in full compliance with the Lottery's procurement policies and procedures. Ms. Chan stated that staff is following the State contracting laws and public contracting laws. Although the Lottery is exempt from the public contracting code, staff continues to follow best practices and industry standards. The Lottery follows all regulations laid out in the Lottery Procurement and Contracting Manual with respect to this amendment. Ms. Mills asked if the Lottery could end this contract earlier than the 10-year term. Ms. Chan explained that they have the ability to terminate the contract at any time provided they give the vendor sufficient notice in advance.

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

Commissioner Garrison-Engbrecht made the motion to approve Action Item 8(h) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

9. Commissioner General Discussion

Chairman Ahern asked if the Commissioners had anything they would like to discuss.

10. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for November 9, 2023.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. Paulina Vasquez, Lottery Sales Representative and SEIU Union Steward, spoke of some management concerns. Adrian Llamas, Lottery Route Sales Representative, spoke of bullying and harassment in the workplace. Sandra Seldeen, Lottery Route Sales Representative, also spoke of unfair treatment and bullying. Russell Sehn, Lottery District Sales Representative and Union Steward, spoke of problems with the Equal Employment Office as well as his concerns with management. Mary Hustler, retired Lottery employee, spoke of management misconduct.

12. Adjournment

Meeting adjourned at 11:52 p.m.