

Lottery Control Board
Regular Session Minutes
March 12, 2014
122 South Michigan Ave., 19th floor, Chicago, IL, 60603
130 W. Mason St., #104, Springfield, IL, 62702

On Wednesday March 12, 2014, at 9:30 a.m., a regular meeting of the Lottery Control Board was held at 122 South Michigan Ave., 19th Floor, Chicago, IL 60603, and at the Training Room in Springfield, IL 62702. Video and teleconferencing were available to join the meeting attendees.

The following board members were present in Chicago: Gary Fencik, *Chairman*, Robert Anthony Christian, and Sharon Thompson. Paul Schaefer attended in Springfield and Geoffrey A. Richards participated via teleconference.

CALL TO ORDER

Chairman Fencik called the meeting to order with a quorum present at 9:30 a.m. The following were also in attendance:

Lottery Staff (Chicago): Michael Jones, *Director*, Sara Barnett, *Chief of Staff*, Daymon Ruttenberg, *General Counsel*, Alison Walters, *Deputy Chief of Staff*, Harold Mays, *Chief Operation & Technology Officer*, Melinda Westwater, *Chief Internal Auditor*, Brett Finley, *Finance Manager*, Nora Iniguez, *Lottery Control Board Secretary*

Lottery Staff (Springfield): Victor Golden, *Deputy Director*, Tracy Jacobson, *Deputy General Counsel*, Mehpara Suleman, *Senior Counsel*, Tiffany Blair, *Budget Manager*, Mike Lang, *Media & Public Relations*

Other Attendees (Chicago): Eric Macey and Josh Lieberman, *Novack & Macey, LLP*, Kathy Gilroy, *public citizen*, Marla Harris, *Governor's Office*

Other Attendees (Via teleconference): Paul Marion, *Crain's Chicago Business*

Other Attendees (Springfield): Anita Bedell, *Illinois Church Action on Alcohol & Addiction Problems*, Kristen Houch, *Governor's Office*

Chairman Fencik specified the following proposed rules regarding public comment:

1. Those wishing to speak must sign up ahead of time on the supplied sign in sheet.
2. Each person will be allowed to speak up to three minutes.
3. If multiple persons or a group wish to comment, the board asks the group to select a representative to address the board.
4. If three minutes is insufficient time, comments may be submitted in writing to the Lottery Control Board Secretary.
5. This will be only time during meetings that the public can address the Board.
6. At conclusion of the allotted time for public comment, the Board asked the public attendees to please be respectful of remaining proceedings.

PUBLIC COMMENT

- Kathy Gilroy addressed the board, regarding a recent Chicago Tribune feature on a liquor store that holds a lottery license. Ms. Gilroy questioned how a convicted felon received a lottery license which she stated violates statute. Ms. Gilroy commented on lottery material at point of sale that is still missing problem gambling information. Finally, Ms. Gilroy inquired as to why casinos are allowed to do lottery style promotions since lotteries are not listed as an approved game in the Riverboat Gambling Act. The Gaming Board approved this promotion and Ms. Gilroy wondered if Lottery was aware of this.
- Eric Macey and Josh Lieberman of *Novack & Macey* spoke on behalf of Northstar Lottery Group. Mr. Macey inquired if Chairman Fencik had received a letter regarding the proposed advertising policy. He also commented on a letter that Director Jones sent to Northstar regarding the Lottery's collection of a FY13 Net Income Shortfall Payment.

APPROVAL OF MINUTES

Chairman Fencik moved for the Board to approve the open session minutes of its regular meeting on 11/13/2013. Bob Christian seconded the motion and the Board approved the motion unanimously by roll call vote.

OLD BUSINESS-Advertising Policy

- The Board tabled the approval of the advertising policy. Chairman Fencik will distribute the letter he received from Northstar, along with the Board's draft policy, to the rest of the board members for their review. The issue will be put on the next meeting's agenda.
- Chairman Fencik and the rest of the Board members agreed that a formal written invitation to the next board meeting should be sent to the new CEO of Northstar Lottery group. Chairman Fencik also asked that the Lottery board members be copied on the letter. The letter should specifically include the topic of the advertising policy.

NEW BUSINESS

- **Proposed BYLAW Amendment-** General Counsel Ruttenberg explained the proposed amendment to the bylaws regarding public comments. The amendment is a way to formalize the Board's process for receiving public comments. Board member Christian made a motion to adopt the new proposed bylaw amendment. Chairman Fencik seconded the motion. A roll call vote was taken on the recommendation to adopt the proposed bylaw amendment and it was approved.
- **Administrative Hearing-** Tracy Jacobson addressed the Board from Springfield and introduced Lottery's new Senior Counsel, Mehpara Suleman, who will represent Lottery

at Administrative Hearings proceedings. Ms. Suleman presented the facts of the Christina Lyons case. Ms. Lyons had filed a Motion for Review (“Motion”) by the Board. The Motion appeals the Decision of Administrative Law Judge Ken Galvin (“ALJ”) in favor of the Lottery. Ms. Lyons had requested an Administrative Hearing to protest a decision by the Lottery denying her claim for payout on a \$1,000.00 winning instant ticket for game 877, “The Good Life”. Ms. Lyons claimed that she purchased the winning ticket and had it validated by a licensed lottery agent. However, she did not have in her possession the winning ticket or a copy or a photograph of the winning ticket or a valid claim receipt or a copy or photograph of a valid claim receipt. She claimed that she mailed the winning ticket via Certified Mail to the Lottery’s Springfield address. The validation showed that “cash limit exceeded.” The Lottery cannot confirm the contents of the package, as it was misplaced. The ALJ ruled against Ms. Lyons based on Title 11, Subtitle C, Section 1770.130 of the Illinois Administrative Code, titled “Lost, Stolen and Damaged Winning Tickets and Other Discrepancies.” This states that each winning ticket must pass validation and security tests as described in the rules of the game being played. If a claim has been entered into the computer system but the claimant is unable to produce a claim receipt, or when appropriate the claim ticket, no action will be taken with respect to the claim until the claim period for the game has expired. For this game, Ms. Lyons must wait one year from when the game closes to submit her claim, at which time, the Lottery’s Chief Financial Officer and General Counsel have the authority to grant or deny her claim.

Board member Schafer questioned the safeguarding of receiving certified mail and making sure that mail is not misplaced in the future.

Director Jones explained that there was an error on the Lottery's side as the package was misplaced and contents cannot be verified. The Lottery must follow the rules in waiting for a year after game #877 ends. He also explained that the rule may need to be reviewed internally as some games do not have an end date.

Ms. Suleman explained that each Board Member must submit his/her vote by signing a Recommendation to affirm or overturn the judge’s decision, and that they must make the decision based on the record of the case.

Chairman Fencik asked if a comment can be made in the next meeting regarding this policy.

- **Open Meetings Act**-There is a Memo being published providing guidance to the board members regarding the Open Meetings Act. It is being reviewed internally and will be made available once completed.

DIRECTOR'S REPORT

- Director Jones explained that over that last two years Northstar and the Lottery have been working together to evaluate the lottery’s current drawing process. He explained that lottery drawings have traditionally been broadcast statewide on the WGN news at noon and 9 PM. In February, WGN discontinued broadcasting the evening news statewide. The Lottery has been exploring options to modernize the

way we communicate numbers in a convenient way to our players. Director Jones went on to explain how the Lottery currently offers two games, Hit or Miss and My 3, which are both drawn by a random number generator. Director Jones stated that the Lottery will adhere to procurement rules while exploring its options, and will also evaluate marketing considerations. Director Jones reported that the Lottery launched its latest specialty game, the MS Project. There was a press event at the State Capitol that generated a tremendous amount of publicity for the ticket.

Marketing

- Northstar launched a mobile app for online lottery tickets.
- ***St. Patrick's Day Raffle*** is currently on sale. With six days remaining until the drawing, sales have declined. Deputy Director Victor Golden explained that marketing is not consistent and there are different programs occurring at retail which is very confusing to the players. This is the third raffle that did not sell out.
- The new television spot, Hoops, is running for the ***\$10,000 a week for 20 years*** game. The ***20 years of Cash*** game which launched in February is replacing ***The Good Life*** ticket. Games consists of \$2000, \$5000 & \$10,000 a week for 20 years
- ***MS specialty ticket*** is launched focusing on scratching out MS from Illinois. Radio scripts are played for the Board members in which a "scratching noise" is heard educating folks as to the existence of this sickness and where the money goes.
- ***Hit or Miss*** currently has a promotion where you purchase three tickets and receive one free.

Board Member Christian asks, "What are the early signs of whether a game is working?" Victor Golden states that Northstar looks at what is sold per week. A weekly sale of \$200,000 per week is considered successful for an online game.

Sales

- Deputy Director Golden gave a presentation on sales for instant and online tickets for FY13 versus FY 14:
- Northstar's Retail Recruitment was a large factor in achieving the sales goal of \$3.5 billion for the FY14. Numbers show that goal versus actual is very low and this all part of the Northstar business plan.
- Director Jones indicated that it is a branding issue. If the lottery has a robust popular brand, then it would be more effective to recruit retail.
- Sales for Veteran's Cash are down about 20 % from last year.
- In order to achieve the \$3.5 billion goal, the Lottery needs to average \$97 million in sales per week. Currently, sales are averaging \$53 million per week. To match FY 13 performance, Lottery needs to average \$56 million per week to have equal sales as FY 13.

FY14 Compared to FY13 up to 3-10-14

	Instant	Online	Total
FY14	\$1,190,614,392	\$741,994,900	\$1,932,609,292
FY13	\$1,201,076,187	\$724,537,962	\$1,925,614,149
Difference	(\$10,461,795)	\$17,456,939	\$6,995,144
% Over/Under	-0.87%	2.41%	0.36%



ANYTHING IS POSSIBLE

Retail Recruitment

	Goal	Actual	+/-
Independent	848	394	454
Corporate	458	0	458
Recruitment Goal	1306	394	-912
Sales	\$88M	\$12M	-\$54M



ANYTHING IS POSSIBLE

Veteran's Ticket

	Net Proceeds	Sales
FY2010	\$1,135,731	\$4,243,568
FY2011	\$1,124,115	\$4,189,162
FY2012	\$796,894	\$3,509,129
FY2013	\$715,598	\$3,214,902
FY2014	\$587,208	\$2,667,962
Total	\$4,359,546	\$17,824,123



ANYTHING IS POSSIBLE

Progress towards goal

Total sales through the first 36 weeks of FY'14: \$ 1,932,609,292
FY'14 Average Sales per week \$53.6M

FY'14 average sales needed per week in the final 16 weeks to equal

FY'14 Projection of \$3.5B =	\$ 97,961,919 per week
FY'13 Performance of \$2,841,412,573 =	\$ 56,800,393 per week
FY'12 Performance of \$2,680,483,840 =	\$ 46,742,159 per week



ANYTHING IS POSSIBLE

- **Finance**

Finance

For Month Ending February 28, 2014

- The weekly sweeps of Lottery retailers netted \$108,555,459.39 in revenues to the State Lottery Fund during the month of February 2014.

For Month Ending February 28, 2014	
Cash Balance carried forward from last month	\$222.5M
Receipts into the fund this month	\$108.5M
Expenditures from the fund this month	(\$79.6M)
Cash Balance at the end of the month	\$251.4M
Expenditures/Transfers made this month	
Vouchers paid this month	\$14.0M
Prizes paid this month	\$25.2M
Transfers made this month	\$40.4M



Finance

For Month Ending February 28, 2013

- In February, the Department made 4 weekly transfers of \$10,101,675, for a monthly total of \$40,406,700 to the Common School Fund.

Scheduled Transfers for March	
Week 03/05/14 #36	\$16,809,375
Week 03/12/14 #37	\$16,809,375
Week 03/19/14 #38	\$16,809,375
Week 03/26/14 #39	\$16,809,375
Total Transfers for March	\$67,237,500



Audit

- Melinda Westwater reported that the Lottery is going to be undertaking a year-three investigative audit of Northstar as required by statute. The external audit is currently underway and is comprised of both a financial and compliance pieces.
- The Lottery is annually required to file a report on compliance with the Fiscal Control and Internal Auditing Act. Senior management is currently evaluating the Department's Internal Controls for this report. The Lottery Director will then certify to the Auditor General that our internal controls are in place and will properly mitigate problems.

Internal Audit

A) Northstar:

- 1) RFP in progress for Audit in 3rd Year as required by Lottery Law. Anticipate start date in April.
- 2) Verification & Review of Financial Data

B) External Audit – Coordinate, Review & Assist:

- 1) Financial Audit – Complete – to be released mid April
- 2) Compliance Audit – Anticipate Completion 4/15/14

C) Internal Audits – Planned or In Progress:

- 1) GAAP Process – Annual, per FRSB 30 ILCS 30/1
- 2) FY13 Investment Securities Purchases
- 3) FCIAA – Annual Certification to OAG on Controls
- 4) Instant Tickets – Inventory & Prize Controls



ANYTHING'S POSSIBLE™

Legal

- Tracy Jacobson, Deputy General Counsel, reported that the Lottery has followed up on some of Ms. Gilroy's comments from the last meeting. The Lottery did find some inconsistencies regarding the problem gambling messaging on marketing materials and will instruct Northstar to correct the problem.
- Board Chairman Gary Fencik asked for an update on the net income shortfall payments that Northstar was required to make to the Lottery. Director Jones informs the Board that both the FY12 and FY13 shortfall payments have been captured, for \$21 million and \$38 million respectively.
- Daymon Ruttenberg, General Counsel, explained that the net income shortfall payments are capped at 5% of the net income.

ADJOURNMENT

In order to discuss potential litigation regarding adjustments to net income and net income calculation, Board Member Fencik moved to close the open meeting session according to Illinois CS120-2C11. Board members Schaefer, Christian, and Richards unanimously approved by roll call vote.

Chairman Fencik adjourned meeting at 11:05 a.m and moved into a closed session.

Respectfully submitted,

Nora Iniguez
Lottery Control Board Secretary