



## CT Lottery

### MEETING TRANSCRIPTION

#### Audit Committee

#### Special Meeting

December 1, 2020 at 9:00 a.m.

via teleconference

Committee Members: Michael Thompson, Chair of the Audit Committee; Patrick Birney; Wilfred Blanchette, Jr.; John Flores; and Patti Maroney (all via teleconference).

Board Members: Robert T. Simmelkjaer, Board Chair.

Staff Members: Greg Smith, President & CEO; Matthew Stone; and Annmarie Daigle.

#### I. Welcome:

(M. Thompson): Welcome everyone. I'd like to call to order our Special Meeting of the Audit Committee on Tuesday, December 1, 2020 at 9:04 a.m. Before we begin I'll turn it over to General Counsel, Matt Stone, to go over our meeting procedures.

(M. Stone): Thank you. This is Matt Stone, General Counsel for the Lottery. We continue to operate under Governor Lamont's Executive Order regarding public access to meetings. There is no in-person attendance at these meetings so the public is listening in on their own phone line, and that phone line will be taken out of the room for Executive Session. That line will be kept open and active and then brought back into the room after Executive Session. A reminder for speakers to identify themselves by name each time they speak, as the public cannot see you and do not recognize your voices. This is particularly important for Board members when making motions, seconding motions, voting no or abstaining from a vote, so that we have the record clearly reflect who took what actions. And finally, the audio of this meeting is being recorded, and we will post the recording transcript on our website after the meeting, which will serve as the meeting minutes. That is all I have; thank you, Mr. Chairman.

(M. Thompson): Thank you very much Matt.

#### II. Approval of October 6, 2020 Audit Committee Special Meeting Minutes:

(M. Thompson): This is Michael Thompson, the first item on the agenda is the approval of the October 6, 2020 Audit Committee Special Meeting Minutes, do I have a motion?

(J. Flores): John Flores, so moved.

(P. Birney): Patrick Birney, second.

(M. Thompson): Thank you very much, any discussion on the minutes? Hearing none, all in favor?

(J. Flores): Aye.

(P. Maroney): Aye.

(M. Thompson): Aye. Any opposed? Any abstentions?

(P. Birney): This is Patrick. I was not at the meeting, so I will abstain.

(M. Thompson): Thank you Patrick. Minutes are passed, with one abstention. Thanks everyone.

### III. State Compliance Audit Update:

(M. Thompson): Our next item is the State Compliance Audit Update. Mr. Smith that is yours?

(G. Smith): Yes, this is Greg Smith, president of the Lottery. Regarding this agenda item, I wanted to make the Committee aware that the State Auditors have completed their audit. While they have not published their final report I wanted to give you the exchanges we've had so far and comments regarding a couple of findings that were made. From a broad perspective, the State Auditors come in and they evaluate the internal controls and how well those are used and applied to manage the company. They evaluate certain practices and procedures that are important or catch their attention to ensure that we are operating to standards and they also check the company's compliance with laws, regulations, policies, etc. to ensure that we are legally, and from a public perspective, complying with these. We do expect their final report soon, we have exchanged our reasons for the findings – we did have two findings in this audit period which was the two years of fiscal 2018 and 2019. Neither of these findings is a repeat finding. First off we had a finding for submitting two reports late whether they were annual or quarterly reports, two instances of those. We were in agreement with this finding and one of the reports that was called to attention was our Affirmative Action report and one of the delays on that was that we switched from a fiscal year to a calendar year and so we were later in normal reporting those results. The other one was a payroll staffing report, we attributed both of those instances to the turnover in our Human Resources office – we have almost completely changed the staffing from what was in place early in fiscal 2018 to what is currently in place now in fiscal 2021. A bit of the handoff was not as smooth as it could have been and we have put in a couple of controls to ensure that these reports will happen on time. The second one was also related to Human Resources or payroll; we audit some departments each year for the accuracy of their payroll and hours submissions. This finding related to that audit happening, two errors being caught and those errors not being actually corrected on a timely basis. These were noted by the auditors and we made those corrections and put in a couple of checks and balances to ensure that these errors that might be caught are tracked and ultimately processed back through payroll to ensure accuracy. The audit report we think is potentially close at hand, meaning within the next month. Our responses to their findings, we were in agreement with them and

we've taken a couple of corrective actions and we expect the audit report to come through including the same information.

(M. Thompson): Any idea when the report is expected?

(G. Smith): It has been a little bit slower with many working out of office, as many state agencies are. I had my thoughts hopeful for the end of this month; fully expecting to see it by the end of January as a potential worst case date. They have not committed to us on either of those months; that is just my read and expectation based on prior years.

(M. Thompson): Thank you very much Greg. Any other questions on that topic from the Committee?

#### IV. Disaster Recovery Update:

(M. Thompson): Hearing none, the next agenda item is the Disaster Recovery.

(G. Smith): Thanks, again this is Greg Smith. A small amount of background for you regarding our disaster recovery. This is more focused on our backup facility, twice during the pandemic we have gone to and used that facility. It is an office space and warehouse location for us. The first time we used it in late March for almost three full days and then in November we were there for one day. What happens with that, we did leave our headquarters due to someone -- either a Lottery employee or someone a Lottery employee was in contact with -- had a positive test, we did leave out of an abundance of caution and go to the backup facility to have the headquarters cleaned. The cleaning, back in March and again in November, has been very prompt and because of the process they use now allows us next day return. The recent occurrence in November, we learned of the instance in the office on Monday, the cleaning happened on Tuesday and we were back in the office on Wednesday. That was meeting all of the cleaning standards established by the CDC and state government. We feel very comfortable with that absence and return. The point I'm bringing up here is that because we are only away one day and because we have enhanced the volume of teleworking that we are doing, when you hear us say that we've left the headquarters office for cleaning, if that happens in the future, we may not actually be going to the DR location and be in that office space because just about everyone can do their work from home. The idea of going there -- we are not holding back on getting work done, we are not needing to go through the fire drill of setting up that location and getting people started when they can walk out of the office with a laptop if they know we're going to be gone for a couple of days. Also for instant ticket distribution, in the November example, it's a bit of an effort to get tickets over to the facility, the racking set up to process orders, complete those orders, break down the racks, bring the tickets back to headquarters, etc. If we are only gone a day, we are not going to go through that effort, the volume in the field is amply sufficient to cover a day. We can catch up on the orders here if we are only gone a day or two. While we have the facility, and we use it as we need to, we are not going to knee-jerk reaction to get everyone over there for a short time. We will use the skills we've developed to work the most efficient way we can and not miss a beat in sales, which may cause us to not use the backup facility each time if it is only a short absence.

(P. Birney): I have a couple questions, this is Patrick Birney. In the long-term, is this going to modify your approach to this alternate site in terms of size and scope; and the second question is what would the potential cost savings be if you somehow modified what that alternate structure would look like?

(G. Smith): This is Greg. We have started to look at that – without going into extensive detail, when I started here a few years ago we had a lot of product, marketing swag and other materials in that backup warehouse as well as the office space with our backup computer equipment, so what we replaced here at headquarters we've moved over there and set up desks, etc. We now don't have much product over there, we've been managing our instant tickets and our buying and selling approach; we still have some over there but it wouldn't be a push to get it all internal. It's not expensive to have that backup facility but the office space component – we've developed some skills in getting people set up teleworking to do most every job out of the office. So we are absolutely looking at it from both a warehouse and an office space component. We know that that facility we have works for us because it has both but from a future look when that lease expires we might just be thinking what does warehouse storage look like, if the office space really becomes an unnecessary point. Does that sufficiently answer your question?

(P. Birney): Yes, Greg, thank you.

(G. Smith): And we have about eighteen months still left on that lease for the backup space.

(M. Thompson): Any other questions for Greg on this? Thank you Greg.

V. Discussion and Possible Action: Draft Audit Committee 2021 Meeting Schedule:

(M. Thompson): Our next item is the Draft Audit Committee 2021 Meeting Schedule.

(G. Smith): This is Greg Smith again. As we mentioned in recent Board and Committee meetings, the idea that we have a schedule approved this year for the following year has some positive features whereas the prescheduled, regular meetings the Committee or Board can work with that agenda – my words – on the fly during that meeting whether changing or adding topics with a bit more freedom than you can with a special meeting. All we are suggesting for this Committee and the Board is to have some meetings that are prescheduled for that purpose, then if the Committee does not want to have a meeting that day, we can cancel it. If the Committee needs to have a special meeting, we can schedule it. This just gives some structure and preplanning and some flexibility to handle topics on the fly with these scheduled meetings that you would approve in advance. The dates that are in front of you, the April and July dates are a bit timed for us to report to you the status of the gaming system RFP progress that is coming along and requires either this Committee's and the Board's ultimate approval of the contract. Those two meetings are timed for those purposes and the other meetings are on a quarterly basis whether there is a topic to cover or not that we anticipate, we feel that the timing of meetings is good.

(M. Thompson): This is Michael Thompson, seems like a good idea to me. Does anyone have any comments or questions for Greg?

(P. Birney): This is Patrick. I agree, it's a good idea to get meetings scheduled at this juncture.

We do it for our Board meetings, so I think it's a great idea.

(M. Thompson): Thanks. Do we need to take any action, should we vote on it?

(G. Smith): Yes, we need to vote on it today as we have a proposed meeting scheduled for January. Once we approve this schedule we will provide it to state government to meet our reporting requirements; so yes we should vote on it if you all are in agreement on it.

(P. Birney): Are you going to do this with the other Committees?

(G. Smith): Yes, we plan to adopt regular schedules with the other Committees and the Board.

(P. Birney): Mr. Chairman, I'll move to adopt the 2021 Meeting Schedule of the Audit Committee.

(M. Thompson): Thank you, Patrick, is there a second?

(J. Flores): John Flores, second.

(M. Thompson): Thank you very much. All in favor?

(All): Aye.

(M. Thompson): Any opposed? Ok, the motion passes. It looks like our next agenda item is to go into Executive Session for the purposes to discuss pending claims and litigation and to discuss a draft plan to address contractual matter. Do we have a motion to go into Executive Session?

(P. Birney): Patrick Birney, so moved.

(P. Maroney): Patti Maroney, second.

(M. Thompson): Thank you Patti. All in favor?

(All): Aye.

(M. Thompson): Ok. Into Executive Session at 9:24 a.m. Greg are you inviting anyone in?

(G. Smith): That will be myself and our General Counsel, Matt Stone. Annmarie will take the public phone line out of the room.

VI. Executive Session:

- a. Pending Claims and Litigation: Marcum and Vendor Contract
- b. Discussion of draft plan to address contractual matter

[Executive Session]

VII. Discussion and action, if any, on items discussed during Executive Session:

(M. Thompson): This is Michael Thompson and we are out of Executive Session at 9:48 a.m. and for the record no votes or other actions were taken during that session.

VIII. Adjournment:

(M. Thompson): If there is nothing else, I'll ask for a motion to adjourn?

(P. Birney): So moved, Patrick Birney.

(P. Maroney): Second, Patti Maroney.

(M. Thompson): Thank you. All in favor?

(All): Aye.

(M. Thompson): Any opposed? Ok, we adjourn at 9:48 a.m. Thank you everyone.

Respectfully submitted,

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Matthew Stone  
Corporate Secretary  
Connecticut Lottery Corporation