

Audit Committee

Minutes Of Special Meeting

Held on
September 17, 2013 at 1:30 p.m.

at
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut

Committee Members: Bob Morgan, Chair of the Audit Committee; Steve Bafundo; Patrick Birney; Robert Dakers; and Michael Thompson (by teleconference)

Board Members: Frank Farricker, Chairman of the Board of Directors; Gale Mattison, Vice-Chairman of the Board of Directors; Natasha Pierre; and Margaret Morton

CLC Staff Members: Anne M. Noble, President & CEO; Diane Patterson; Chelsea Turner; Paul Granato; Lana Glovach; and Michael Hunter

Guests: David Milkosky and Louis Roberts of Ernst & Young LLP

Call to Order: Mr. Morgan called the meeting to order at 1:40 p.m.

I. Approval of Minutes:

On motion made by Mr. Bafundo, seconded by Mr. Thompson, and unanimously approved (with Mr. Morgan abstaining), it was:

Resolved, That the minutes of the April 18, 2013 Audit Committee Special Meeting are approved, with the following change in the following sentence in the "II. Executive Session" section of the minutes: "Mr. ~~Stauffer~~ [Thompson] stated that no actions or votes had take place during the Executive Session."

II. Executive Session:

At 1:41p.m., Mr. Morgan proposed a motion to enter into Executive Session to discuss:

- Review of Draft FY 13 Ernst & Young Year End Audit Report
- Attorney/Client Communications re:
 - Draft FOIA Fee Policy
 - Pending Claims and Litigation
- Terms of Online Gaming System Contract Extension

Mr. Birney stated that he would recuse himself from any discussions regarding Scientific Games and the online gaming system contract extension.

On motion made by Mr. Birney, seconded by Mr. Mattison, and unanimously approved, the Audit Committee entered into Executive Session. Ms. Noble, Ms. Patterson, Ms. Turner, Mr. Granato and Ms. Glovach were invited to attend the entire Executive Session.

Messrs. Roberts and Milkosky were invited to attend only that portion of the Executive Session concerning the review of the draft FY 13 Ernst & Young year end Audit Report. At the Committee's request, the listed CLC staff left the room during part of the discussion of the draft year end report so that the Committee could speak with the Ernst & Young representatives. The Committee asked the listed CLC staff to re-enter the room after the conclusion of its discussions with the Ernst & Young staff, and the CLC staff remained in the room for the remainder of the Executive Session.

Mr. Birney recused himself from the discussion about Scientific Games and the terms of the online gaming system contract extension by leaving the room when it was discussed.

At 3:35 p.m., the Audit Committee reconvened in regular session. Mr. Morgan stated that no actions or votes had taken place during the Executive Session.

III. Old Business:

None.

IV. New Business:

A. SSAE No. 16 Report: Mr. Hunter stated that the report was provided to the Committee for its information. Mr. Morgan stated that it was the same report referenced in Ernst & Young's report.

B. Procurement Status Report: Ms. Noble updated the Committee on a number of the Corporation's procurement efforts.

- Market research RFQ: As previously discussed with the Committee, the Corporation will shortly issue a Request for Qualifications for research firms.
- Legal services RFP: The Corporation has issued a Request for Proposals for legal services because all extensions under the current contract have been exercised.
- Advertising Contract: The Corporation has entered into a new advertising contract with Fuseideas. In addition, the Corporation has selected Bauza & Associates to provide multicultural marketing services. That contract is being negotiated. The Corporation has identified two projects for Bauza once the contract is completed: a public service announcement about problem gambling, and a training video for the Corporation's retailers.
- SocialSphere: This research firm has previously performed research for the Corporation on a number of its games and has expertise in the industry and unique knowledge of the Corporation's portfolio. The Corporation has considerable confidence in SocialSphere. The Corporation had an immediate need for research on the game design and logo for a keno game, and SocialSphere was able quickly to perform the research in light of its prior work for the Corporation and its lottery expertise.

Mr. Morgan then made the following statement on the record:

“Given the importance to the Corporation of market research about our players and games and given SocialSphere, Inc.’s expertise, knowledge of the Connecticut marketplace, and prior research and analyses performed for the Corporation, the Audit Committee supports the President’s determination to retain SocialSphere, without open or competitive bidding, to perform certain market analyses and research in connection with the logo and prize matrix for the keno game. Such action is consistent with the Corporation’s purchasing policy and enabling legislation and enables expertise and cost-efficiency in this necessary research.”

- C. Online Gaming System Contract Extension: on motion made by Mr. Bafundo, seconded by Mr. Mattison, and unanimously approved (with Mr. Birney abstaining),

Recognizing that approval of keno game rules rests with the Corporation’s Board of Directors and the Department of Consumer Protection, it was:

Resolved, that the Audit Committee recommends to the Board of Directors that the Board authorize an extension of the online gaming system contract for a minimum of seven (7) years from the date of commencement of Keno sales and operations and authorize the President, on the Corporation’s behalf and for its benefit, to execute an extension of that contract in accordance with its terms, subject to the occurrence of each of the following events:

1. Receipt and review by the Corporation, including its Board of Directors, of signed agreements, as required by Section 12-806(b)(4) of the Connecticut General Statutes, between the Secretary of the Office of Policy and Management, on behalf of the State of Connecticut, and the Mashantucket Pequot Tribe and the Mohegan Tribe of Indians of Connecticut; and
2. Passage of an amended budget for FY 14 authorizing expenditures for the implementation of keno, including but not limited to expenditures of up to \$5,400,000 to Scientific Games for the addition of up to 600 new retailers and the deployment of keno within the existing retailer base.

V. Adjournment:

On motion made by Mr. Mattison, seconded by Mr. Bafundo, and unanimously approved, the meeting was adjourned at 3:45 p.m.

Respectfully submitted,

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Lana M. Glovach
General Counsel
Connecticut Lottery Corporation