

VIRGINIA LOTTERY
Operations Committee
October 2, 2024

The Virginia Lottery Operations Committee met on October 2, 2024, at 10:30 a.m. at Lottery Headquarters in Richmond, Va.

Members Present: Jonathan Comer
Scott Price
Sherry Williams
Ferhan Hamid, Board Chairman

Member Participating Remotely: Cynthia Lawrence, Chairwoman

Absent: Adam Tolbert

Staff Present: Khalid Jones, Executive Director
Amy Dilworth, General Counsel
Paul Battle, Director of Information Security
Deborah Courtney, Deputy Executive Director of Finance and Administration
Jennifer Mullen, Deputy Executive Director of Communications and Customer Relations
Tony Russell, Deputy Executive Director of ITS and Operations
Chris Whitney, Internal Audit Manager
Jo Murphy, Executive Assistant

Cynthia Lawrence, chairwoman, presided, and Jo Murphy was the recording secretary.

Call To Order

Ms. Lawrence called the meeting to order and noted that a quorum was present.

Ms. Lawrence participated remotely pursuant to Virginia Code section 2.2-3708.3 (2022). She received approval to participate remotely from the chairman after complying with the statutory notice requirements.

Minutes

On motion duly made by Mr. Price and seconded by Mr. Comer, the committee recommended that the Board approve the minutes from the Operations Committee meeting held on June 18, 2024, as presented.

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Operations Committee Charter Update

On motion duly made by Ms. Williams and seconded by Mr. Hamid, the committee recommended that the Board approve the revised Operations Committee Charter, as presented.

Audit Report

Ms. Whitney said that the audit plan is comprised of scheduled audits for the year based on results from the audit universe risk assessment. She said that our risk-based audit approach is designed to add value to the organization and ensure that we utilize audit resources in the most productive way. She also said that key accomplishments during Fiscal Year 2024 included ensuring compliance with Commonwealth Information Security Standards reporting requirements and renewing the external auditor contract. The external auditors observe the draw show. In addition, her team assisted with the Loyalty Program draw procedures and consulted on requirements for meeting updated Commonwealth Information Security Standards.

Ms. Whitney said that four audit reports were issued (two carried over from the prior year), two audits are in the reporting phase, four audits are in progress, and four audits have been moved to subsequent fiscal years. Ms. Whitney said that the audit plan was developed utilizing the audit universe risk scores, time since the last audit and estimates of time required to complete each audit. She said that, in addition to the audits in progress, there are nine audits scheduled for FY25.

Ms. Whitney said that there are five open findings (four in progress) as of October 2, 2024.

Ms. Whitney provided an update on the Institute of Internal Auditors (IIA). The IIA has updated the standards, which are now referred to as the Global Audit Standards. These standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and improving the quality of the internal audit function. The updated standards go into effect in January 2025. The Internal Audit Charter will be updated to align with the new IIA standards. The updated charter will be submitted for review prior to the next Operations Committee meeting for approval during the subsequent Board meeting (date TBD).

Ms. Whitney said that she must attest to the organizational independence of the Internal Audit department on an annual basis. She said that the internal audit activity must be independent in fulfilling its responsibilities. The Internal Audit Manager reports administratively to the Deputy Executive Director of Finance and Administration and functionally to the Operations Committee of the Lottery Board. Based on the International Standards for the Professional Practice of Internal Auditing, organizational independence is effectively achieved under this reporting structure.

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Ms. Lawrence thanked Ms. Whitney for her thoroughness. Ms. Lawrence said that the Board has great confidence in her group.

Retailer Compensation Update

Ms. Courtney provided an update on retailer earnings based on a question from the Board at its August 7, 2024, meeting. She shared a graph of retailer earnings versus sales from 1989 to 2024. She also discussed retailer compensation compared to the compensation rate. Ms. Courtney said that her team evaluated the retailer population for all locations that actively sold and serviced Lottery products for the entirety of FY24. The simple average retailer earnings was \$26,956, and the median was \$22,147.

Ms. Courtney said that 55% of Lottery retailers earned more than \$20,000 in retailer compensation in FY24. The independent retailer location (nonchain) median earnings were \$17,472 (2,019 locations). The chain retailer location median earnings were \$25,073 (2,795 locations). While total commissions and sales are concentrated around metropolitan centers, the median commission per retailer does not increase with the population. More populated areas have more retailers, which keeps the median steady. Total retailer earnings in FY24 were a record \$141.5 million (5.8%).

Ms. Courtney shared a list of the top retailer compensation earners. She also shared total earnings and average earnings.

Ms. Courtney said that retailer-incentive programs allow retailers to earn more. The programs are designed to incentivize retailers for actions that support sales. The selling-bonus program allows retailers to share in player big-win experiences. In FY24, 545 selling bonuses were awarded for a total of \$760,750.

Lastly, Ms. Courtney shared pictures from a retailer-bonus event on September 26, 2024, that was attended by Khalid Jones, Sherry Williams and several Lottery employees. The retailer received a \$10,000 selling bonus.

Problem Gambling Update

Ms. Mullen provided an update on the Lottery's statewide awareness efforts related to our Play Responsibly messaging. She shared the Play Responsibly logo that also contains the helpline number. She said that we do a paid-media campaign every year, and she played a PSA. Ms. Mullen provided examples of the Lottery's news-media outreach. She also described tactics where we use our owned assets: the Lottery's website, emails to players, and social media. The

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draw show hosts even reminded Virginians to play responsibly. Ms. Mullen said that we have a variety of ways to provide messaging at retail locations. Play Responsibly messaging also is incorporated in the monthly retailer publication called “Playbook.” Messaging is always included in a quarterly internal publication that goes to the entire sales force. New this year is an employee-awareness survey that is currently underway. She said that there are posters in Lottery CSCs and headquarters and posts on the Lottery’s intranet.

Ms. Mullen described the current exclusion tools. The first option allows players to self-exclude for one, three or six months. The second option is the Voluntary Exclusion Program, and it allows players to exclude for two years, five years or lifetime. The program includes exclusion from casinos, sports betting, iLottery, Rosie’s, and activities administered by charitable gaming and horse racing.

Ms. Mullen provided an overview of responsible gaming partnerships. She said that there are bimonthly meetings with the internal responsible gaming team and the Virginia Council on Problem Gambling (VCPG). There also are bimonthly meetings with VCPG and the Department of Behavioral Health. There are quarterly meetings of the Problem Gambling Treatment and Support Advisory Committee that is legislatively established.

The Gaming Compliance team is reviewing and ensuring that the sports betting operators whose licenses are currently under review are in compliance with required responsible gaming practices.

Ms. Mullen said that we are partnering with Scientific Games who has a robust responsible gaming unit. They do a study every year, and this year we are going to participate. It will provide insights into behaviors and beliefs to measure the impact of responsible gaming efforts.

Lastly, Ms. Mullen provided results of Vixio’s “U.S. States' Online Sports Betting Regulations. An Evaluation Against National Council on Problem Gambling Standards.” The report, prepared by Vixio Regulatory Intelligence, evaluates the extent to which each state's sports betting regulations align with NCPG's standards. A total of 30 states and the District of Columbia that offered legal mobile sports wagering as of June 2024 were included in the study. Among the key findings: Connecticut, New Jersey and Virginia are most aligned with the Internet Responsible Gambling Standards (IRGS) by meeting 49 of the 82 standards.

Ms. Lawrence reiterated her concern regarding the rise of online gambling in our culture. She said that the younger generation is being exposed to gambling with the rise of technology. She urged the Lottery to think about communication with our school systems that would address the potential for addictive behavior within our youth. Ms. Mullen said that she will investigate this matter.

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Procurement Manual and Procedures Revisions Discussion

Ms. Lawrence called on Mr. Hamid to start the discussion of the procurement manual and procedures revisions. Mr. Hamid said that the minutes of the June 18, 2024, Operations Committee meeting reflect some of the follow-up items based on a review of best practices. He also noted that the Board will be provided with a Small, Women-owned, and Minority-owned Business (SWaM) report on an annual basis.

Mr. Jones shared a slide that listed the proposed changes pending full Board approval.

Mr. Hamid asked that this matter be discussed at the next Board meeting on October 30, 2024.

Public Comment

None.

Closed Meeting

Mr. Comer made the following motion, which was seconded by Mr. Price.

In accordance with the provisions of Virginia Code section 2.2-3711.A.19, I move that the Committee convene a closed meeting for the purpose of discussion, consideration or review of:

- briefings by staff members and legal counsel concerning actions taken to respond to specific cybersecurity threats or vulnerabilities; and discussion of reports or plans related to the design, function, operation, or access control features of an information security system, where discussion in an open meeting would jeopardize the safety and security of an information technology system.

Reconvened Meeting

Following its closed meeting, the Committee reconvened in open session. Mr. Price read the following certification for the closed meeting:

WHEREAS, the Virginia Lottery Operations Committee has convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3712 of the Code of Virginia requires a certification by this Committee that such closed meeting was conducted in conformity with Virginia law.

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NOW, THEREFORE, BE IT RESOLVED that the Virginia Lottery Operations Committee certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Committee.

By roll call, all members in the room voted in the affirmative that the certification was accurate as read.

Next meeting

Ms. Lawrence said that the next Board meeting is October 30, 2024. Mr. Comer asked Ms. Lawrence if she thought it was necessary to have an Operations Committee meeting between October 30, 2024, and the first meeting of next year, which will likely be in mid-January 2025. She said that waiting until after the January 2025 Board meeting to meet would allow the Committee meeting to be more substantive. The Committee members agreed.

Adjournment

There being no further business to come before the Committee, the chairwoman declared the meeting adjourned.

Khalid R. Jones, Secretary

Cynthia Lawrence, Chairwoman