

Minutes for the Colorado Lottery Commission

Call to Order

A Commission Public Hearing for the Colorado Lottery was held on Wednesday, October 10, 2018, at the Denver Lottery Office – 720 Colorado Blvd., Denver, CO 80246 – and via video conference in the Pueblo Lottery Headquarters, 225 N. Main St., Pueblo, CO 81003. The meeting was called to order at 8:06 a.m., and was presided over by Chairman Jim Bensberg.

Attendees

In attendance were one (1) Chair, (1) Vice Chair, two (2) Commissioners, twenty one (21) representatives from the Colorado Lottery, one (1) representative from Cactus, one (1) representative from IGT, one (1) member of the public, three (3) representatives from the Department of Revenue (DOR), and one (1) representative from Sci Games.

Present in Denver:

Jim Bensberg, Chair
Stella Peterson, Vice Chair
Dennis Maes, Commissioner
Stan Podolski, Commissioner
Colin Waters, Lottery
Corry Powers, Lottery
Michelle Hauck, Lottery
Tara Stosek, Lottery
Ken Woltz, Lottery
Carol Sanchez, Lottery
Todd Greco, Lottery
Tom Horvat, Lottery
Summer Duncan, Cactus
Tyson Barr, IGT
David Skaggs, Denton's
Lawrence Pacheco, DOR
Jennifer Anderson, Lottery
Heidi Humphreys, DOR
Tom Cargal, Lottery
Angela Saviano, Sci Games
Tom Seaver, Lottery
Mike Hartman, DOR
Christian Hawley, Lottery
Jennifer Churchill, Lottery
Juslena Trujillo, Lottery

Present in Pueblo:

Trisha Macias, Lottery
Anthony DeHerrera, Lottery
Anthony Gonzalez, Lottery
Cristi Gannon, Lottery
Nancy Bartosz, Lottery
Byron Martinez, Lottery
Jay Sisson, Lottery

Lottery Spotlight

Carol Sanchez presented On the Spot Awards to IT Staff members who worked on a special project. Ken Woltz, Anthony DeHerrera and Anthony Gonzalez worked in conjunction with the Office of Information Technology for four and a half months to implement one of the first VxRail solutions in the state. OIT recommended a product lease but our team identified purchasing cost savings of \$30,478.00. They created additional cost savings of \$70,000.00 through efficiencies by reducing to four servers and two storage arrays.

Colorado Lottery

MAIN MOTIONS

Approval of Repeal of Scratch Games, presented by Trisha Macias;

- Game #798 7-21-11
- Game #824 10 Fold
- Game #827 \$250,000 Mega Hit Crossword Multiplier
- Game #837 Lucrative Luck
- Game #850 Holiday Gold

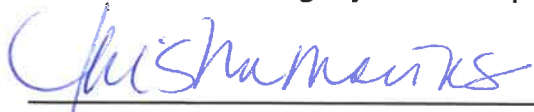
Commissioner Maes noted the high number of unclaimed prizes in the games presented for repeal. Nancy Bartosz responded that one of the games had ninety nine \$10,000.00 prizes, of which six remain unclaimed. Another game has a \$250,000.00 prize remaining.

A motion to approve the repealed games presented was made by Commissioner Maes and seconded by Commissioner Peterson. The motion passed unanimously.

Public Comment

Chairman Bensberg asked for public comment. There was none.

Chairman Bensberg adjourned the public meeting at 8:06 a.m.



Completed by: Trisha Macias



Date of Approval

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Attendees

In attendance were one (1) Chair, (1) Vice Chair, two (2) Commissioners, twenty one (21) representatives from the Colorado Lottery, one (1) representative from Cactus, one (1) representative from IGT, one (1) member of the public, three (3) representatives from the Department of Revenue (DOR), and one (1) representative from Sci Games.

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Jay Sisson, Lottery

Approval of Minutes

A motion was made by Commissioner Maes to approve the minutes for the Commission Meetings held on August 24, 2018 and September 12, 2018, and was seconded by Vice Chair Peterson. The motion passed unanimously.

Financial Reports

Nancy Bartosz presented financials for month of July, FY19. July sales were very good with Scratch at \$35.8M, compared to \$29.6 last July, and a Mega Millions run of \$522M. July also saw high unclaimed Scratch prizes as well as a large number of small unclaimed prizes from a January 2018 Powerball jackpot.

On the proceeds sheet, July numbers are actual. Because of high sales and low prize expense percentage, July distributions were high at \$13.7M. Sales are actual through September. Projected prize expense for Lotto was updated following August and September jackpot hits. Proceeds are projected at \$140.2M, slightly over goal for the time being but it will continue to fluctuate throughout the year.

Ms. Bartosz pointed out that overall we are \$2.3M down ending three months this September compared to last September. Although we had a great July, there was a Powerball run of over \$700M last August, illustrating the difference one month and a jackpot run can make.

Discussion Items

Approval of Scratch Games, presented by Todd Greco;

- Game #898 \$1 Reel Winner\$
- Game #899 \$2 Double Up Dollar\$
- Game #100 \$2 Money Mile Game
- Game #101 \$5 Give Me 5
- Game #102 \$5 Blue Chip Ca\$h
- Game #103 \$1 10X
- Game #104 \$2 20X
- Game #105 \$3 30X
- Game #106 \$5 50X
- Game #107 \$10 100X
- Game #108 \$3 4X The Fun Crossword

Mr. Greco pointed out that the 900 series games are specialty test and security games and are not used in the marketplace.

A motion was made by Commissioner Podolski to approve the games presented and was seconded by Commissioner Peterson. The motion passed unanimously.

Chairman Bensberg introduced Stan Podolski, the newest Lottery Commissioner who fills the slot of former Commissioner Michael Weatherwax.

Director's Report

- **Security/Investigations 1st Quarter Recap**

Brian Kohnlein reported that Security conducted 350 compliance investigations, one hundred percent of which were compliant; eighty eight sting operations with two compromises, neither of which came into the office for redemption; four investigations into high tier winners above \$50K, all of which were compliant; investigated forty seven criminal complaints; and responded to one CORA request on the process and security of draw machines. Security has submitted a felony case filing on a repeat offender, a case on which both Pueblo and Denver offices worked.

Mr. Hartman asked if charges would be brought on any of the forty seven criminal complaints. Mr. Kohnlein responded that local prosecutors will make that determination and Lottery will provide information if charges are pursued.

Chairman Bensberg asked if it is routine to investigate winners over \$50K. Mr. Kohnlein responded confirmed that all prizes over \$50K are investigated to ensure tickets are valid before payment is made.

- **Scratch/Jackpot Summits**

Tom Seaver provided an overview of the marketing summit that occurred in September. Scientific Games (SGI) and IGT made presentations to the marketing and sales teams about best practices in the industry, game enhancements, and new game opportunities to implement in Colorado to generate more ticket sales and increase profitability. Summit attendees have been asked to provide feedback through Tom Cargal for consolidation and to later review with product teams to make any revisions to the current product plan in the second half of the year.

Vice Chair Peterson asked whether the Lottery has designs specifically for lottery tickets and numbers to track their performance. Mr. Cargal responded that SGI has a portfolio of games available for use in the marketplace to generate ideas from, along with indexing for game performance in Colorado and other states. Angela Saviano added that SGI uses a Marketing Analysis and Planning (MAP) database with data points across every jurisdiction for every ticket in the marketplace which shows attributes such as play

action, color, top prizes, and velocity of sales at different timestamps. Several Lottery staff also have access to the Game Gallery database to view additional results.

Mr. Seaver added that emerging games can be evaluated in MAP to determine where in the pioneer scale lotteries want to be based on performance indicators. Product managers across lotteries are also willing to share their insights on games with one another.

- **Lottery Performance Audit**

Jennifer Anderson presented findings from the most recent Performance Audit. The Office of the State Auditor (OSA) conducts Performance Audits on all state agencies at least once every five years to ensure fulfillment of statutory mandates. The State Auditor presented the audit report to the Legislative Audit Committee (LAC) on September 24th. The full report is available to the public on the LAC website. The Lottery's financial audit will be presented to the LAC on November 15th, where Lottery has also been asked to make a presentation to follow up on some of the items identified in the Performance Audit.

The Lottery's last Performance Audit was conducted in 2013 with eight findings and six recommendations. The current Performance Audit resulted in three findings and three recommendations, of which only two recommendations pertain to the Lottery.

In the first finding, auditors examined a total of 6,704 instances of players winning \$600.00 or more over a period of three years and concluded that four players specifically, including one licensed Lottery retailer, won with a greater frequency than the odds would suggest is likely. Three of the individuals won in Pick 3 and the other in Cash 5. Mr. Hartman added that the possibility of discounting was discussed by the LAC. It is not illegal in Colorado for someone to buy a ticket for someone else at a discounted price and redeem it for the full amount of winnings. The LAC discussed the possibility for a retailer to engage in discounting and may run a bill next year to make the practice illegal.

Commissioner Maes asked whether something triggered this particular investigation since it was not addressed in the previous audit. Ms. Anderson responded that the investigation was not in reaction to any sort of report. The auditors were asked whether they had looked into the numbers before and responded that they had not. She pointed out that no wrongdoing was found. The ultimate recommendation was that repeat winners be validated more frequently. Mr. Hartman clarified that the recommendation came from the OSA. Some members of the LAC expressed a desire to have a third party

law enforcement agency conduct a cursory review of these four instances to ensure public confidence of the safety of the games. Lottery's internal investigations staff reviewed the four instances prior to the LAC hearing and were confident in their findings. It is currently under consideration what a third party perspective would add.

Commissioner Maes expressed concern that this report could have negative implications if players start to assume that they will become subject of an investigation if they are repeat winners. He questioned the extent and thoroughness of the investigation and what findings came as a result. Mr. Hartman responded that he expressed the same concern to the LAC. Specific details of the investigations will be presented to the LAC on November 15th and can be discussed with Commissioners in Executive Session at the next Commission Meeting.

Ms. Anderson continued that Recommendation #1 of the audit report stated the Lottery should establish thresholds to trigger its awareness of unusual winning patterns for investigation. Findings of illegal or unethical conduct as a result of an investigation should be reported to the LAC.

The Lottery has fully satisfied Recommendation #1 by requesting regular reporting from IGT of frequent winners of \$600 or more and through the adoption of a written procedure on September 14th to investigate winners who defy the odds of winning.

Ms. Anderson reminded the Commission of the internal security controls already in place at the Lottery and showed a video explaining how the Random Number Generator works. The video is available on the Lottery website.

In the report, auditors acknowledged that the more players play, the more they win and that winners often reinvest their winnings into the same game, which can account for a winning streak. Pick 3 does have the highest odds of any lottery draw game. The winnings in Cash 5 were not statistically abnormal as the player played the same ticket twelve times and received twelve times the winnings.

The second finding cited the Restricted Player Database as an ineffective tool for ensuring players prohibited from playing do not claim prizes, these include Lottery employees and their immediate family members living in their household, Lottery Commissioners and contract employees. Some employees and Commissioners were not listed in the database and on average it took 135 days after hire to add new employees into the database.

Commissioner Maes asked if people in the database try to collect a prize are reported to the Lottery. Corry Powers confirmed that the Lottery is notified.

Recommendation #2 stated the Lottery should develop and implement a written process and timeline for obtaining and updating information in the Restricted Player Database. Vendor contracts and Lottery Rules state that all vendor and contract employees should be included in the database but it is logistically impossible to implement. Contracts and rules need to be revised to better reflect current practice.

The Lottery has fully satisfied Recommendation #2 by beginning work to revise Lottery Rules and vendor contracts to identify key vendor employees to be entered into the database. Vendors will be required to provide verification of restricted employees within thirty days of a new or amended contract. On September 14th Lottery adopted a written procedure that new employees will complete the restricted player form within 30 days of hire, to include information on immediate family members who reside in the same household, and be entered into the database within 60 days of receipt of the form. The database will be updated annually. Finally, the database has been updated to include employees identified as missing from the database in the audit report. The responsibility will rest on employees and Commissioners to notify the Lottery of changes in their households.

Commissioner Bensberg asked if Commissioners can gift Lottery tickets. Mr. Kohnlein responded that statute prohibits their purchase of Lottery tickets.

Commissioner Peterson asked whether minors need to be included on the form. Ms. Anderson confirmed.

Commissioner Podolski asked whether the individuals who were investigated as part of Recommendation #1 were notified that they were being investigated. Ms. Anderson responded that the topic will be discussed in Executive Session at the next Commission Meeting.

The third audit finding was not directed at the Lottery. It identified that statute does not give the Lottery the authority to intercept other fines, fees and costs owed to the courts as is done with tax refunds in the DOR. The recommendation is that the Judicial Branch review the issue and consider bringing legislation to give Lottery that authority. Lottery could have collected \$123K if it had that authority. Judicial agreed to the

recommendation and will begin to convene stakeholders in September 2019 to discuss the issue and bring legislation if necessary.

- **NASPL 1.21.08**

Lottery staff provided their takeaways from the NASPL conference.

Ms. Anderson noted a close-knit global industry. Sports betting was the biggest theme and heavily discussed. Lotteries would need to define which sports will be allowed to be bet on, how to protect market share and continue to be innovative in what and how products are offered. There is the potential for sports betting to dig into existing products and affect beneficiaries. Any legislation would also have to include a ban on wagering on the outcomes of lottery games.

Tom Horvat shared that Krogers is testing a lottery gift card in Ohio and Georgia for multiple quick pick purchases in Mega Millions and Powerball. Stores can host the gift card display without having to be licensed. Lotteries are continuing to explore enhanced retail experiences, digital innovations and opportunities to increase profitability. Ohio and Virginia have retrofitted their machines to accept debit, credit and wallet readers and have found significant sales increases. Other distribution channels are being considered, areas with high points of sale such as Michaels craft stores.

Jay Sisson attended sessions on cashless payments and enhancements in technology. He found it interesting that 70 percent of worldwide lotteries run sports betting.

Mr. Seaver added the emergence of iLottery. He noted the high payout of online instant games in Pennsylvania, in the 80 percentages, which is much higher than traditional games. Their profit margin is small but they are finding that they are getting new players into the lottery built on a handheld platform. The online games are not cannibalizing the traditional game line up and are not distracting from retailers or threatening their profitability. The sales growth remains strong. Michigan is four years into their experience and have not seen cannibalization or negative reactions from retailers either. There is a large connection between sports betting and iLottery as sports betting will be heavily dependent on electronic means.

The Director's Report was concluded at 9:38 a.m.

Commission Items

Chairman Bensberg reminded Commissioners that the November meeting will take place at the Pueblo Headquarters.

Commissioner Maes shared a concern that he was caught off guard when approached by a local reporter about the Performance Audit prior to being notified about it by Lottery staff. He requested again to have proactive communication when important issues arise. Mr. Hartman assured the Commission that they are continuing to develop their communication strategy to get ahead of stories.

Commissioner Peterson requested an overview of Commissioner roles and responsibilities. General Counsel will be asked to provide information at the November Commission meeting.

Public Comment

Chairman Bensberg asked for public comment. There was none.

Adjournment

Chairman Bensberg adjourned the meeting at 9:53 a.m.



Completed by: Trisha Macias



Date of Approval