



DRAFT MEETING TRANSCRIPTION

Audit Committee

Special Meeting

April 3, 2020 at 3:00 p.m.

via teleconference

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

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

I. Welcome:

(M. Thompson): Welcome everyone to our Special Meeting of the Audit Committee on Friday, April 3, 2020 at 3:02 p.m. In accordance with Governor Lamont's Executive Order 7B, the public has been provided access to our meeting via teleconference. That line is now open. There will be no in-person public attendance at this meeting pursuant to the Governor's order. The public dial-in information was provided via regular notice of this meeting. I will point out also to conform to our meeting procedures, everyone please identify yourself for the record when speaking as we do have a public line open. Thank you for joining us, I hope everyone and their families are doing well during these interesting times.

II. Approval of the January 29, 2020 Audit Committee Meeting Minutes:

(M. Thompson): Our first agenda item is approval of our January 23, 2020 Audit Committee Special Meeting Minutes. Do I have a motion on those?

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

(W. Blanchette): Will Blanchette, second.

(M. Thompson): Thank you, any discussion? Hearing none, all in favor?

(All): Aye.

(M. Thompson): Any opposed? Abstentions? Great, the minutes pass. Thank you.

III. Review of Auditors of Public Accounts Findings:

(M. Thompson): Next is the Review of Auditor of Public Account Findings. Greg, who should we turn that over to?

(G. Smith): This is Greg. I'll take it from here and give some background and turn it over for any questions that you may have. We have been engaged with the auditor of public accounts for this 2016-2017 compliance audit for quite a while. We've been aware of the contents of the report for the last eighteen to twenty months as they've been working

through it, and fine tuning all the content in the report that just came out this week. Also included, above and beyond the traditional compliance audit, was the reporting on some extra requests that came from the DCP and a few legislators. The four specific auditor findings are about non-compliance with a board appointment, whether there was board approval about an incentive compensation plan for a particular year, lack of documentation in a particular personnel file, and whether one particular hiring had documented qualifications for the position. We had no objections and we were in complete agreement with their recommendations regarding these, and I think their points are laid out for each one of the findings. I'm happy to review any of them. One of them in particular we may not be in complete alignment with their word choice however we are in complete agreement with their recommendation. Are there any questions with the report from the Committee members?

(M. Thompson): This is Michael Thompson. Does anyone have any questions for Greg on the auditors' report? Hearing none, Greg do we need to take any votes or is it just for informational purposes to pass along to the Board for their review?

(G. Smith): We will pass along to the Board. If we were in a position of objecting to their findings or if we were not implementing recommended actions I think we'd be in a different position but this is really more of an awareness process and we are in complete agreement with their recommendations.

(M. Thompson): Hearing no comments or objections it is fair to say that the Audit Committee is in agreement with these recommendations and will pass along to the Board for their review. Ok Greg, thank you for that.

IV. Gaming System Consultant Discussion:

(M. Thompson): Moving on to the next agenda item, Gaming System Consultant Discussion.

(G. Smith): This is Greg Smith. This topic is to bring the Audit Committee up to speed on the steps that we've started in preparation for the gaming system RFP that we will begin preparing now and expect to complete over the summer. This is for the replacement of our full gaming system that is currently operated by Scientific Games. We expect following the RFP issuance we would use the next twelve to fourteen months to receive proposals, evaluate them, decide which company to go into an agreement with, and prepare a contract. From that point, we have another eighteen to twenty months for the development, testing and ultimate launch of the system three years from now. All U.S. lotteries use consultants and project management services for their RFP development, for their evaluation of proposals, and also for the development and testing phase of the new systems. The Connecticut Lottery budgeted \$80,000 in this current fiscal year 2020 for any potential work that we might need the services of a consultant for in our RFP preparation. We've spoken to some consultants about this work and learned some of their preferences for the work where they might be might have a particular strength and skill. We will begin getting quotes and selecting a consultant for our RFP preparation soon. I wanted to make the Committee aware of it and that we're following a timeline, with ample time knowing that

the next couple of months may continue with travel restrictions and limitations on access to people. We plan to start now as opposed to waiting even a few months from now.

(M. Thompson): Thank you Greg. For the Committee's background could you please give us a little history on the decision that was made to start the RFP process. Is there a normal evolution of a gaming system, is there a reason why this is happening now?

(G. Smith): Yes. The traditional gaming system upgrade for full replacement is on a ten-year cycle and the Connecticut Lottery last had its new system brought forward back in 2008. At least five years ago when we decided to add the Keno product, we extended our gaming system contract out an additional five years, expiring in April 2023. We will need and absolutely want a new system to be working with by that time as opposed to going with another extension. I am unaware of any gaming systems which have lasted longer than fifteen years.

(M. Thompson): Thank you. Does anyone have any questions for Greg?

(P. Birney): This is Patrick Birney, I have a couple of follow up questions. If you could go a little deeper in terms of formulating the RFP and who are the consultants who will be bidding on this kind of work? If my memory serves me correctly, I don't recall us retaining an expert, an outside consultant, for purposes of the RFP process. I don't have any issues with it, but if you could help us understand why we don't have that level of expertise in-house at the Connecticut Lottery Corporation to structure the RFP, to pick the potential gaming system contractor and launch with them.

(G. Smith): This is Greg. The vastness of these gaming systems are vast computer systems with many business facets, including the different telecommunication methods that are used, based on stores being in a very urban area versus a store being in a very rural area. Additionally, the knowledge that the Connecticut Lottery needs for all of the gaming systems that have been launched in the United States in the last ten years, and the new enhancements that have been provided since we last did ours, are not going to be the strong suit of the Connecticut Lottery staff, and are more for industry experts who do this as a profession. It is not unusual that most state agencies or quasi-public agencies don't keep people with this depth of knowledge and skill set on regular staff. It's not just a new trend, it's an ongoing effort to use consultants. When I was in both Vermont and Illinois we used consultants to help us with preparations for this, to prepare our RFP, and to evaluate proposals. And we had another company come in to help us project-manage the entire thing because of the magnitude of all that was involved. Was that a good start to answering your question or should I go further into some of the topics?

(P. Birney): That's good. I know that our systems are massive and they're integral to our revenue stream and to our 24/7 daily operations. Who are the folks that do something like this?

(G. Smith): For example, without naming names, there are some former lottery directors or former senior staff members of lotteries or other organizations who specialize in the gaming system or IT components. There are companies who do gaming system certification or gaming device certification such as internal control systems or lottery

vending machines that we have in the market that also offer services. These are the types of companies or subject matter experts who come forward and help us where we are lightly enabled. One thing that's important to include in this conversation is the Connecticut Lottery staff will do a significant amount of work in preparing for and understanding what we need to know about the system. The consultants are people who are that much more talented or versed in its development, and what the opportunities are as opposed to just having used the gaming system.

(P. Birney): Thank you.

(J. Flores). Greg this is John Flores. Can you talk about the process of selecting the consultant, do we need an RFP for the consultant who's going to help us on the RFP for the gaming system?

(G. Smith): We might for one of them. Everything we do, we will be following our established purchasing policies which address all of these, whether it's consultancy services or specialty singularly possessed knowledge, so there will be no deviation from it. We're just bringing the topic at the beginning of its life cycle in front of the Committee and the Board so that you're aware of it as we begin to move through it.

(J. Flores): Ok. Thank you. And just one other quick question. You mentioned \$80,000, that's just for this year, correct, but this consultant's going to be a multi-year consultant right?

(G. Smith): We will need services from people starting very soon and through the next three years. I am not saying full time as much as I'm saying there will be a flexing up and flexing down of services, but it will not be just one person. There will be people who are best served to help us prepare an RFP, and that will probably not be the same person who manages us with project-management services. We will not be putting out one RFP for one person to take us all the way through, but yes there will be ongoing budgeted and utilized expenses for this over the next three years.

(J. Flores): Ok, thank you.

(M. Thompson): This is Michael Thompson. Does anyone else have any questions for Greg?

(W. Blanchette): Yes this Will Blanchette. Do we get any help or are there opportunities to consult with anyone from DAS or the State to help us select a proper vendor?

(G. Smith): This is Greg. The vendor community for providing these gaming systems over my time in the industry, and a little longer than that, has been a universe of three and they are the same ones that serve all of the U.S. lotteries and most of the international lottery community.

(W. Blanchette): Thank you.

(M. Thompson): Anyone else? Greg is that it on that topic?

(G. Smith): Yes it is.

V. Executive Session:

a. Pending claim regarding vendor contract

(M. Thompson): The next item on the agenda is Executive Session, pending claim regarding vendor contract, can I get a motion to go into Executive Session?

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

(M. Thompson): Is there a second?

(P. Maroney): Patti Maroney, second.

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

(All): Aye

(M. Thompson): It is 3:22 p.m., and we are in Executive Session.

(G. Smith): This is Greg Smith. I am going to invite Matt Stone to stay for Executive Session. We are going to take the public phone line out of the room now and will bring it back in when we come out of Executive Session.

At 4:02 p.m., the Committee reconvened in regular session.

VI. Discussion and Action, if any, on Items Discussed During Executive Session:

(M. Thompson): Thank you. We are back in public session at 4:02 p.m. and I'd like to state that no votes or actions were taken during Executive Session.

Our next item is our adjournment, so I'd like to entertain a motion to adjourn.

VII. Adjournment:

(W. Blanchette): Will Blanchette, so moved.

(J. Flores): Second. John Flores.

(M. Thompson): All in favor? Any opposed?

(All): Aye.

(M. Thompson): Thank you everyone, we are adjourned at 4:03 p.m.

Respectfully submitted,

Matthew Stone
Corporate Secretary
Connecticut Lottery Corporation