



DRAFT MEETING TRANSCRIPTION

Audit Committee

Special Meeting

July 21, 2020 at 11:00 a.m.

via teleconference

Committee Members: Michael Thompson, Chair of the Audit Committee; Wilfred Blanchette, Jr.; John Flores; and Patti Maroney.

Board Members: Robert Simmelkjaer, Board Chair.

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

Guest: Ward J. Mazzucco, Chipman, Mazzucco, Emerson, LLC.

I. Welcome:

(M. Thompson): Welcome everyone. I'd like to call to order our Special Meeting of the Audit Committee on Tuesday, July 21, 2020 at 11:03 a.m. I would also like to take a moment to welcome Board Chair Robert Simmelkjaer to his first Audit Committee Meeting, we are pleased to have you join us. 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. Just a reminder that we are operating under Governor Lamont's Executive Order regarding public access to meetings. We have the public on a different phone line listening in, 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 that speakers should identify themselves by name each time they speak, 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, this meeting is being recorded, audio only, 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, and thank you, Mr. Chairman.

(M. Thompson): Thank you Mr. Stone, we appreciate that. We have a number of things on the agenda today so we'll jump right in.

II. Approval of April 3, 2020 Audit Committee Special Meeting Minutes:

(M. Thompson): First off, we have two sets of minutes, our April 3, 2020 Audit Committee Special Meeting, do I have a motion for the April 3rd minutes?

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

(M. Thompson): Thank you John. Is there a second?

(P. Maroney): Patti Maroney, second.

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

(All): Aye.

(M. Thompson): Any opposed? Any abstentions? Minutes are approved.

III. Approval of April 8, 2020 Audit Committee Special Meeting Minutes:

(M. Thompson): On the April 8, 2020 minutes, do I have a motion for those?

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

(M. Thompson): Thank you, John. Is there a second?

(W. Blanchette): Will Blanchette, second.

(M. Thompson): Thank you Mr. Blanchette. Any discussion on the April 8th Special Meeting minutes? Hearing none, all in favor?

(All): Aye.

(M. Thompson): Opposed? Any abstentions? Great; those meeting minutes pass as well.

IV. Quarterly Update on Liquidated Damages:

(M. Thompson): Our next agenda item is the Quarterly Update on Liquidated Damages. Mr. Smith, that is yours?

(G. Smith): Yes. Just about a year and a half ago we established that there would be this quarterly update of any damages, unless we had any significant individual damages where we would alert you upon their occurrence. This is just a routine quarterly reporting that we have had no unusual or significant liquidated damages or service level assessments for Scientific Games, our gaming vendor, so it's essentially nothing to report this quarter, the period April through June.

(M. Thompson): This is Michael Thompson, thank you for that. Does anyone have any questions? Rob, just some background, we typically do this on a quarterly basis in case there are any liquidated damages issues we need to address with Scientific Games. We instituted this under Greg's direction a little over a year ago, maybe longer than that; and so it's given the Audit Committee an opportunity to review and deal with any liquidated damages issues that may need to be brought to the Board. So it looks like this quarter there are none, is that correct Greg?

(J. Flores): This is John. Can we define liquidated damages for Rob?

(G. Smith): This is Greg Smith. There are certain conditions called out in our agreement with them that when any of these conditions become an action that merits the attention for liquidated damages or service level assessment, that we already have a structure for pricing and the like in place and it's about if there is significant occurrence, and I think we had

significant as generally individually \$50,000-\$100,000 as an immediate reportable and smaller amounts than that become part of the quarterly reporting.

(R. Simmelkjaer): This is Rob. That makes sense, these are damages that they would owe to us for outages, things not working or our inability to sell product because of something their product fell short on?

(G. Smith): Yes and system security and things like that. They've already been laid out in the agreement and we just follow that – monitoring and reporting.

(M. Thompson): Thank you. Any other questions on that issue? Thank you very much Greg.

V. Data Privacy and Cyber Security Update:

(M. Thompson): The next agenda item is Data Privacy and Cyber Security Update.

(G. Smith): I am going to hand that to Matt Stone, our General Counsel.

(M. Stone): This is to give the Audit Committee an overall flavor of what we are doing. We are and have been for a while now creating an overall information security program. The program will involve cyber security, of course, it will also involve physical security because we have quite a bit of paper still in the office, legacy paper with information on it, and we still generate a lot of paper so our information security refers to both physical and cyber security. Myself, the Director of IT, Steve Wagner, the Director of Security, Mark Walerysiak, and Jeff Yue, one of our Counsel, we are spearheading the effort to come up with the entire program, that will involve everything from routine stuff that I'm sure you are aware we already do, for instance in the IT department all the network testing of firewalls, the anti-virus, all that stuff we do. Then the Security department, with the actual physical security of documents, and cameras, and ID badges and access, physical access to things. In the Legal department we are taking over the drafting of the documents such as if you have an information security incident, coming up with the response plan, if we have an incident; we are classifying the type of information we have through an extensive inventory project because we need to know what we have in order to know how to protect it. We also have an Information Privacy and Security Committee which we established about a year or so ago that consists of members of every single department in the corporation and the overall goal of that committee is to ensure that best practices and protocols are employed throughout the departments. It meets regularly, every couple of months or maybe once a quarter, to discuss industry trends, anything we've seen as far as security threats or breaches of that nature, all the way down to information security incidents that we are experiencing, such as phishing -- Greg's and Annmarie's emails have recently been used to try to convince employees to do things in their names and it wasn't them. So it's part of an overall program that we have been implementing and we are going to continue to implement to protect the corporation's information, whether it's cyber or physical. It's a herculean task as I'm sure you realize it just changes so frequently, the amount of cyber actions that can happen that can be directed towards us, the physical threats, we are constantly vigilant about this and constantly working on defining the program. That's the

update that I have; I am happy to answer any questions or provide any detail that you would like to hear.

(M. Thompson): Thank you very much for that Matt. Does anyone have any questions for Matt?

(W. Blanchette): Yes, I do. This is Will. Matt, are we governed by the records retention protocols issued by the state library or are we free of that?

(M. Stone): This is Matt; yes, we are governed by those protocols and we have someone on staff, Suzanne Colley, our Director of Operations, who is extremely well versed in that and we do abide by those, we have created some of our own records retention series for the specific type of information that we have, so we are on top of that, she is on the Information Privacy and Security Committee, and we do factor that into our information security program, we factor that in as well as the Freedom of Information Act.

(W. Blanchette): Thank you.

(M. Stone): You're welcome.

(M. Thompson): Thanks Will. Anyone else?

(J. Flores): John Flores, I have a question. Should this internal committee somehow report to the Audit Committee for an organizational purpose, just throwing it out there?

(G. Smith): This is Greg. I'll chime in on that. In the bylaws, one of the areas of cognizance of the Audit Committee is information security, so this update is actually keeping us in compliance with that. The direct actions of telling the Information Privacy and Security Committee what to do would still normally flow through the corporation but certainly the updating and awareness and certainly any recommendation, how we are currently designed, with the Audit Committee.

(M. Thompson): Does that help, John?

(J. Flores): Yes.

(M. Thompson): John, are you suggesting perhaps a different reporting structure or a structure that would feed into the Executive Committee directly?

(J. Flores): I was just wondering – I think that it's great that we created this internal committee – maybe it's for Rob and Greg to determine from an organizational structure, you have a committee that clearly has an important aspect, should it somehow be formally connected to Audit, Executive, or something. This is more of an organizational question as I have no problems with what's happening.

(M. Thompson): Good question.

(R. Simmelkjaer): This is Rob, I do think that's a great question. Greg and I can talk about it off-line, look at the bylaws, and think about it. Good question, thanks for raising it.

(M. Thompson): Thanks John. Anyone else have any other comments or questions for Matt or Greg on this? Just generally speaking, are there state resources, Matt, that we could use

to help in providing the proper structure, thinking through the issues, and any other ways we can take advantage of what's already been done within state government, consultants, that type of thing, to help you in your project?

(M. Stone): This is Matt. There are certain things we can do, we are separate from other state agencies in the sense that other state agencies go through the state for their information technology services. They go through BEST – I do not recall what the acronym is at the moment -- we have our own internal department of IT so there are certain things, for instance the state, I think it was Governor Malloy, came up with the *Cyber Security Priorities* and a *Cyber Security Guide*, so we have been reviewing those and are implementing certain aspects of those into our overall program. So there is a limited amount of stuff we can use, that is already out there that we have access to, so that we do not have to reinvent the wheel.

(J. Flores): This is John. I do not know what the acronym stands for but I know the Treasury IT professionals always go through BEST.

(G. Smith): This is Greg. While there may not be any formal conduits with BEST, we do reach out and check with different state agencies and also other quasis so that we are not trying to reinvent the wheel on certain approaches; and to see what's out there, to see what is another state agency doing on a certain approach.

(M. Thompson): Are there any issues that you foresee on this, Greg, that you can discuss in this format that would help the Audit Committee or the Board to think about these things long-term, are there any large scale expenses or other things to anticipate to help make sure our data privacy and cyber security are up to speed?

(G. Smith): Not at this time; I think that Matt and I are going to be talking about some of the efforts of the committee and that will include some of the reporting to the Audit Committee and the Board. We are doing a number of things anyway and trying to make sure that different individual efforts are known as integrated into the overall plan that we are taking, whether it's an IT effort on testing our system security and penetration or whether it is a Security effort on physical breaches and access, we just want to make sure that all the things we do individually are known by the Committee and also known by the Board. I think that coming up with a model to show you, will also be a good way of showing ourselves because I think a lot of times with efforts from each department sometimes you need to diagram what the whole thing looks like so you can understand how things are handled – one department works mostly with paper, one department only works with virtual product, and another one is working with physical access around the different things. We need to get all that known and visualized, it's important to have a plan but it's also important for the staff to execute the plan on a daily basis. I think once we improve that visual image and are able to describe it will be helpful for everyone to understand it's part of their everyday work life, it's not just this thing that this committee does.

(M. Thompson): Thank you for that. Any other questions for Greg or Mr. Stone before we move on? Thank you. That is a good segue for item, Disaster Recovery Update, they kind of go hand-in-hand.

VI. Disaster Recovery Update:

(G. Smith): Thank you. Thinking of DR in general, and a reminder for the Committee and Board members, that under the pandemic circumstances, back in late March and early April, those circumstances caused us to execute our Business Continuity Plan and our two remote locations, meaning our back up operations facility and also our back up draw studio. Both of those were used for a period of either 3 or 7 days and we stood up our operations, the critical operations that were needed to perform each day's work, and the services that were done at each of our primary locations were successfully executed at those locations. What we are looking at next is -- we have those already prepared sites and that is great for us to be able to go to those -- the next step will be to go to a site that is not prepared, if we can't use either of our back up locations for whatever reason and we still need to figure out how to stand ourselves up. I think some of the things we've gone through with telework and other improvements that we've made for these prepared sites will cause us to understand how to stand up at a hotel ballroom or a warehouse where we can get Wi-Fi for example, how could the Lottery actually bring itself to life there? We will be developing that plan and reporting back to this Committee on our progress in that direction.

(M. Thompson): Thanks Greg. Does anyone have any comments or questions on that topic? I know that we've done a number of these exercises over the years and it sounds like we're still making sure that we have the capability in case something does happen, to keep the whole ship moving forward.

(G. Smith): It does and one of the interesting features going there for the pandemic, we had let's say roughly fifty desk locations for people and they were pretty close together so for the pandemic concept we couldn't actually seat all fifty of those spots because people should not be sitting that close to each other. So it's caused us to relook at some of that and to also consider the idea of having more people working from home and still being able to perform their duties either fully or to an extent that was useful. This will be an ongoing process but I think our ability to go anywhere and be able to bring ourselves to life will be the ultimate test of our Business Continuity Plan.

(J. Flores): This is John Flores. I'd just like to comment that the staff has done a really great job with disaster recovery. You have these exercises and you always wonder if it wasn't an exercise, in the real world, would it work, and experience shows that it works, so kudos to the lottery staff and everyone involved in that.

(G. Smith): Thank you. A "tabletop" is not a real life experience.

(M. Thompson): It certainly isn't. Thanks for those comments, John. I agree the staff has done a great job in this area for sure.

VII. Draw Studio Update:

(M. Thompson): If there are no additional comments, we'll move on to the next agenda item, Draw Studio Update.

(G. Smith): I am not going to go into a lot of background on this, but some foundational information. Our draw studio is a leased location in the Fox61 building in downtown Hartford. Our lease covers the broadcasting requirements for each of the game drawings and we do these drawings for some games twice a day, some games twice a week. There are games drawn every day and there is a televised broadcast of game drawings and game results seven days a week, every day of the year. Our annual lease of that building for the last couple of years has been \$380,000 per year. The Connecticut Lottery performs the drawings using the rules and procedures that we've worked with and gotten approval from the Department of Consumer Protection. DCP is ultimately responsible for ensuring the integrity of the drawings so we have a dual role, where they ensure and approve the steps we take, and the Lottery staff actually executes the drawing steps or procedures. The draw videos are posted for viewing online in addition to being aired but it's probably a well-known fact that live TV viewing is declining and not just from recent pandemic experience but over time live TV becomes a less commonly viewed product -- recorded TV and the idea that the automation to bypass commercials and other interruptions into the programming is a common practice. What we are doing is we are trying to prepare some alternative approaches to see if the Department of Consumer Protection is comfortable with the terms of the idea of continuing to perform the drawings and continue to record and prepare video of the drawings but do we actually need to live broadcast them? We are working on plans to see what those alternative approaches can be and to see if there is an existing comfort zone that can be reached so we could see if there is a different path that we would use as opposed to live televised drawings. So that is something that we have been working on over the past year and we will continue to do that. We are currently in negotiations with Fox61 to extend our agreement with them, I think we are working on extension year four of a potential seven years of extensions. So we are well within the range of the agreement and we have what I'll call good terms in it if we did come to an end of our interest in being at the studio they know and we know there's a 60-day cancellation notice for it. We've talked about it and everything I am telling you I've told them, so they are well aware of our looking at different approaches. We keep them current on those negotiations as well.

(M. Thompson): Thank you Greg. Are there any questions? Yes, Patti?

(P. Maroney): Are there any requirements that you broadcast, is there any legislation that says that or any regulations that would need to be changed?

(G. Smith): No, not as far as live broadcast or televising the drawings.

(P. Maroney): Ok.

(M. Thompson): Thank you Patti. This is Michael Thompson, are there states or lotteries that have left the live broadcast behind?

(G. Smith): Yes, throughout the U.S. lotteries there are many states who do not use the ball machines and use digital draw systems that just portray the results through random number generation results. Some of those machines have videos in them so you can animate what your drawing looks like. There are states that do ball machine drawings that show people

like we do and show the ball results, some of them just show the machine and the balls without human involvement, there is a whole portfolio of different approaches within the U.S. Even with our games, I don't know that people normally understand that Keno is a drawing, but we perform a Keno drawing every four minutes and none of those are televised. We do portray them on video monitors around the state, so there is a bit of a hybrid going on, not just in Connecticut but around the country. They are all well known, valid, good approaches to it – how does the state want to portray itself and what do they want to pay for from the concept of live airing of a drawing versus making a video and putting it out there that can be seen instantaneously whenever you want to as soon as the drawing is over. We are working on that, we are developing what the different approaches can be and preparing a plan so that we can show DCP here's the way current looks like if we do it this different way and what the approach is. So no results to report yet but just wanted to let you know we are in the negotiation process with Fox61 and in the process of discussing with the Department of Consumer Protection to figure out what is possible and what is approvable.

(R. Simmelkjaer): Mr. Chair, may I ask a quick question?

(M. Thompson): Yes please Mr. Chairman.

(R. Simmelkjaer): Thank you. Greg, this is my world of media, so a couple of thoughts that I have. First I'd be curious to see any viewership numbers that you could get from Fox61 on who is watching these drawings, I don't know if they get a Nielson report for something like that, I would think they probably do so I'd be curious to see where those numbers are. My guess would be it's certainly an older audience who's watching live televised drawings but that may be the core audience for some of the products of the Lottery, daily numbers, and things like that. And then to your point about declining TV audience, younger audiences are generally not consuming that way so maybe it's not a 'do it or don't do it' but let's look at our distribution a little differently – what are we doing across YouTube, what are we doing on mobile devices, what opportunity might there be to develop new ways of distributing and getting on people's phones as a live product or a product that gives an alert on their phone when the numbers are drawn every day. I think there is probably a lot of opportunity here from a distribution point of view to grow the audience of the product that we are putting out there every day. It's definitely worth a longer conversation.

(G. Smith): Yes, and there are a number of those features that you spoke of that actually are happening now and one of the interesting parts is that the lottery drawing is in the commercial break period of whatever the show is at that time so it can even be drawn by what is the station's programming product that our video is a component of that break in. All of that is relevant in the conversation and I can certainly provide you more information of what we do and what we are looking at. Just introducing that update to keep up these conversations, keep the station lease moving until we have a different plan, if any, just for the awareness component.

(M. Thompson): Great, anything else from anyone? Ok, thank you for those comments Rob.

VIII. Fast Play and Keno Selling Bonus:

(M. Thompson): Moving on to our next item which is Fast Play and Keno Selling Bonus.

(G. Smith): Again, this is a shorter item. We launched the Fast Play game just yesterday and very happy to report that we had projected what I'll call a reasonably conservative sales estimate of about \$50,000 in sales the first day and we hit over \$200,000. So nice first day start, nice to see that jackpot roll like it did. The reason we brought it up here, from an operational perspective, Fast Play has prizes that are eligible for a selling bonus that we pay to retailers for selling those winning tickets so the Fast Play game had an addition to the selling bonus criteria where any prize that was \$10,000 and higher, that selling retailer would get a 1% bonus based on whatever the progressive jackpot amount was. So we added that into the selling bonus listing; we also had some very nice success with selling Keno and we added an additional selling bonus opportunity so whenever a Keno prize is greater than \$10,000 and doesn't fit the exact prize listings that are on our current selling bonus we added a few more opportunities for retailers to get a 1% reward for that and we measured the expense of that over the course over the year and it is a good message for retailers and it's a reasonable expense for us to undertake for it. We also took the Powerball and the Mega Millions prize for match five of six so when a player matches five of six that player is awarded a million dollar prize and we had an award to the selling retailer that they would get \$2,500 and it was a different measurement than we had for every other game so we raised that prize up to a 1% calculation which models what we do for instant ticket games, it models what we do for Keno, and models what we do for Fast Play. These are slight adjustments to some of these higher prize amounts that don't occur very frequently but when they do it's nice to be able to reward the retailer and for them to recognize that the way they are rewarded is similar to this game, and this game and this game, so they have a consistency.

(M. Thompson): Have you had any feedback, have you surveyed the retailers on this?

(G. Smith): It effectively just started with the Fast Play starting yesterday so we will be communicating that out to them for the awareness and we're rolling it into what the field sales reps are covering in their phone calls to retailers so they can be aware of it.

(M. Thompson): Does anyone have any questions for Mr. Smith on that point? Thank you for thinking that through, Greg, consistency with the retailers is important.

IX. Executive Session:

(M. Thompson): That brings us to our Executive Session where we will be discussing Pending Claims and Litigation: Marcum and vendor contracts. Greg is there anyone who will be invited to Executive Session other than those present?

(G. Smith): I am going stay on, I'm going to ask Matt Stone to stay on and we also have an outside counsel that we requested to join for one of the topics so we'll include him as well.

(M. Thompson): So is there a motion for Executive Session?

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

(J. Flores): John Flores, second.

(M. Thompson): Thank you, all in favor of moving to Executive Session?

(All): Aye.

(M. Thompson): Any opposed? Hearing none, we'll go into Executive Session at 11:38 a.m.

X. 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 1:02 p.m. and I would note for the record that no votes or other actions were taken during Executive Session.

XI. Adjournment:

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

(P. Maroney): Patti Maroney, so moved.

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

(J. Flores): Second, John Flores.

(M. Thompson): Thank you. Any discussion?

Hearing none, all in favor to adjourn say 'aye'.

(All): Aye.

(M. Thompson): Any opposed? Ok, we adjourn at 1:03 p.m. I thank everyone for their time today.

Respectfully submitted,

Matthew Stone
Corporate Secretary
Connecticut Lottery Corporation