

BOARD MEETING MINUTES: May 30, 2023 ABC Headquarters

Call Meeting to Order at 9:07* a.m.

Attendees

Board Chair Tim Hugo
Board Vice-Chair Maria Everett
Board Member Greg Holland
Board Member William Euille
Board Member Mark Rubin
Chief Executive Officer, Travis Hill *
Chief Government Affairs Officer, John Daniel
Chief of Law Enforcement, Tom Kirby
Chief Retail Operations Officer, Mark Dunham
Chief Digital and Brand Officer, Vida Williams
Chief Administrative Officer, David Alfano
Deputy Secretary, Chris Curtis
Director of Internal Audit, Michael Skrocki
Office of the Attorney General, Jim Flaherty
Executive Assistant, Kathleen LaMotte
Legal Assistant, Helen Gordon

* Mr. Hill joined at 9:20

Employee Work Profiles

Chair Hugo reviewed some difficulties he experienced when trying to approve Employee Work Profiles (EWP) for several Authority employees due to the distance he lives from the office and not having access to a ABC owned computer. He asked if this was a matter that may be appropriate to delegate to someone who lives closer to the office in order to give the Authority more flexibility.

Mr. Rubin advised that the authority to approve EWP is delegated to the Chair, and a motion to rescind that delegation and put something else in place would be needed. Mr. Daniel added that others may be delegated to execute the EWP and provide a report to the Board.

Chair Hugo asked for Mr. Daniel to draft something and circulate within a week so the Board may review potential solutions at the next meeting.

Lottery Update

Michael Skrocki, Director of Internal Audit, and Vida Williams, Chief Digital and Brand Officer, provided the Board an update on the last lottery and efforts underway to prevent similar issues from occurring.

Mr. Skrocki reported that:

- In the last lottery held, the Authority received many complaints that there were statistically abnormal patterns and many duplicate winners.
- No Authority employees were eligible to participate in this lottery, and would be removed from the system prior to the random drawing.

- To the best of his knowledge, no family member of an ABC employee won the last lottery.
- There were an average of 36,000 entrants per lottery product, this number is increasing as bourbon gains in popularity. Lotteries are currently a manual process run through Excel; a random number is generated by Excel and there are many manual touchpoints with poor control on the back end in analyzing the results.
- Internal Audit took a closer look at the last lottery and noted that the results seem to be a sorting issue through Excel and not an intentional skewing of results. There is currently another lottery underway, and using the information uncovered during the last lottery, the process is becoming more automated with a manual review.

Ms. Williams reported that:

- The new lottery is the same entry process. In reviewing the data for the past year, 95% of lotteries went well, the last lottery made issues seem a lot more egregious.
- The currently pending lottery received 49,000 entries. Warehouse online ordering of limited availability (WOLO LA) will have many processes incorporated to address challenges seen in the most recent lottery.
- The Authority is now using Google Address validation, which removes entries that were using a bad address that couldn't be validated, these caught roughly 3% of all entrants, 1,300 records. Next, the Authority used exact address duplication to invalidate another 14% (5,900 records).
- Within the WOLO LA system, moving forward those same participants would not be able to register with duplicate addresses.
- The current automated process flagged roughly 20% of 42,000 entries for roughly 35,000 valid entrants.
- After the Google Address process, there is a manual review by human eyes. One entrant in the currently pending lottery registered 241 times with different addresses and emails. The automated process reduced this to 13 entries. Internal Audit, Strategy and Analytics and Merchandising are all reviewing the list and highlighting any potential problems.
- Entrants that are removed will be notified, and entrants that are also in the final, valid entry list will be notified. All files are separated out to be externally and internally reviewed.

Mr. Skrocki advised that the old process was very manual, and using automation to review for valid addresses is a good step. These errors should not occur, and Internal Audit will perform an after analysis and review.

Board Member Rubin asked if the winners of more than one bottle submitted more than one entry. Mr. Skrocki was not sure. Stores are requested to only release the bottles to a person with an address on their ID that matches the address used in the lottery. Ms. Williams added that the entrant who provided 241 entries in the currently pending lottery had the pick-up for all of them listed as a store in Northern Virginia, even though the addresses provided were throughout the state.

Mr. Skrocki elaborated that there was a breakdown in the sorting of the data in Excel; some entries were sorted and some were not. The after analysis of the flawed lottery demonstrated that part of the spreadsheet was not sorted. The utilization of WOLO LA to randomly pick a winner will eliminate the random sort in Excel. Ms. Williams added that WOLO LA is employing statistical programs and algorithms.

Board Member Rubin asked if confidence is high that the problem is eliminated. Ms. Williams responded that it is very high that the WOLO LA process can provide proof of an equitable process. This would eliminate the human touchpoint and implement standard, best practices statistical libraries

Mr. Skrocki added that there will also need more checks in the back-end to check on the automated piece and a deeper analysis after the fact to validate the random process.

Board Member Euille asked how long the old system was in use. Mr. Dunham responded that it began in 2016. Mr. Euille then asked how the Authority will communicate to the public in terms of the allegations of the system being

flawed and what corrections are being made. Ms. Williams responded that the last lottery had flaws, but most of the time the bottles went to a unique winner. The last lottery was flawed and the Authority is taking that very seriously. WOLO LA is scheduled to go live in July, and has been in the works for over 6 months. Statistics on future lottery winners will be shared to help demonstrate how things are randomized and will provide a complete story to go out with the next group of lottery winners.

Mr. Skrocki noted that in the past year of lottery winners he has reviewed, 95% are unique winners. The problems with repeat winners were all in the last lottery.

Ms. Williams discussed outreach to the Virginia Lottery to understand their auditing process, and that the authority is open to consider a third-party review to formalize our best steps forward. The scale of the lottery has become too large to run on the older, manual process.

Board Member Euille appreciated that the Authority is reaching out with other systems to see what may be learned. Ms. Williams added that a Data Engineer with the Authority previously worked for the Virginia Lottery, and that the Lottery was willing to discuss their approach.

Mr. Skrocki will give an update at the next meeting on the progress of the current lottery and improvements, and added that the Virginia ABC collects a lot of data that the Virginia Lottery does not, making ABC's process more involved.

FOIA Requests

Mr. Daniel distributed a sheet of recent FOIA requests, attached to these minutes as Appendix A, to the Board. There were several requests related to the lottery.

Comments from the Board

Chair Hugo asked from a policy point of view, when does ABC go outside of Authority staff or the AG's office to obtain counsel. Mr. Daniel responded that the Authority works very hard to do things in-house with the five attorneys on staff, and then would first consult with AG's office on their capability to handle matters for the Authority. Currently no Authority staff has expertise in employment law matters, and these items generally go to outside counsel. There is not a regular cadence on personnel matters.

Chair Hugo asked for updates from the Authority on write-offs for warehouse conversion, and a list of contracts over the last three years that add to over a million dollars. Mr. Alfano will pull the contracts and offered to provide a presentation on the process of awarding contracts.

Chair Hugo asked how Mr. Skrocki started the process of completing an audit. Mr. Skrocki responded that a plan is developed at the beginning of the fiscal year, Mr. Skrocki presents a proposed plan to the Board based off of internal risk-analysis. This process has already started, Mr. Skrocki surveyed all Directors and chiefs, and will present to the Board this summer. There is always some carryover from the previous year, and special reviews and process may pop up in the middle of the year and are important and may shift previously planned audits.

Chair Hugo referenced the Internal Audit (IA) report from September 2022 regarding Suspend/Void Issues that was failed to be disseminated. Mr. Skrocki was not the Director of Internal Audit at that time, but IA changed processes so this would not occur in the future.

Chief Kirby outlined the involvement of the ABC's Bureau of Law Enforcement (BLE). A District Manager suspected an employee was stealing, and Special Agent Goodman from BLE conducted a criminal investigation which resulted in three employees charged and convicted and ordered to pay restitution. Deputy Chief Brown informed the Directors of Internal Audit and Retail of the investigation due to the processes exploited by the former employees to commit their theft on the POS systems. Chief Kirby reviewed emails and confirmed that IA confirmed receipt of the criminal investigation.

Board Member Rubin reiterated that he understood the Chair’s concerns that this matter sat for a long time, and recalled getting a four- or five-page memo from Travis about what went wrong, and we’ve heard a lot about things being put in place to correct this, and asked what the Chair would like to know.

The Chair advised that he did not know the Internal Audit report had been sitting around for several months. People miss emails, but there are currently four people on administrative leave, and he has concerns if people knew of this before February.

Board Member Rubin advised that the information regarding the report had been shared with the Board and the Authority appears to have made extensive efforts to see what went wrong and how to ensure it never happens again, and other concerns concerning personnel matters should be discussed in a closed meeting.

Vice Chair Everett agreed with Mark Rubin that the problem with the Internal Audit report has been recognized, acknowledged, and the Authority can move forward with the changes to resolve the problem.

Closed Session

At 10:10 Vice Chair Everett moved that the Board enter closed session Virginia Code §2.2 37.11(A)(1)(8) to discuss performance of certain specific employees of the authority and to consult with legal counsel related to disciplinary action with regards to Authority employees. Board Member Holland seconded. The motion passed on a roll call vote of 5 – 0. Attending the closed session in full were Tim Hugo, Maria Everett, Greg Holland, Mark Rubin, William Euille, and Jim Flaherty. Attending in part were Director of Internal Audit Michael Skrocki, Dave Alfano, Mark Dunham, Travis Hill and John Daniel.

Hearing

The Board Appeal scheduled for this date was continued to June 8 due to licensee’s counsel being involved in an accident.

Return to Open Session

When the Board returned from closed session at 11:09, Board Vice Chair Everett moved to certify that to the best of her knowledge nothing was discussed in the closed sessions except performance of certain specific employees of the Authority and to consult with legal counsel related to disciplinary action with regards to Authority employees, and only public business matters lawfully exempted from open meeting requirements was discussed. Board Member Euille seconded; the motion passed on a roll-call vote of 5 - 0.

Comments from the Board

Thursday, June 8 – Board Meeting

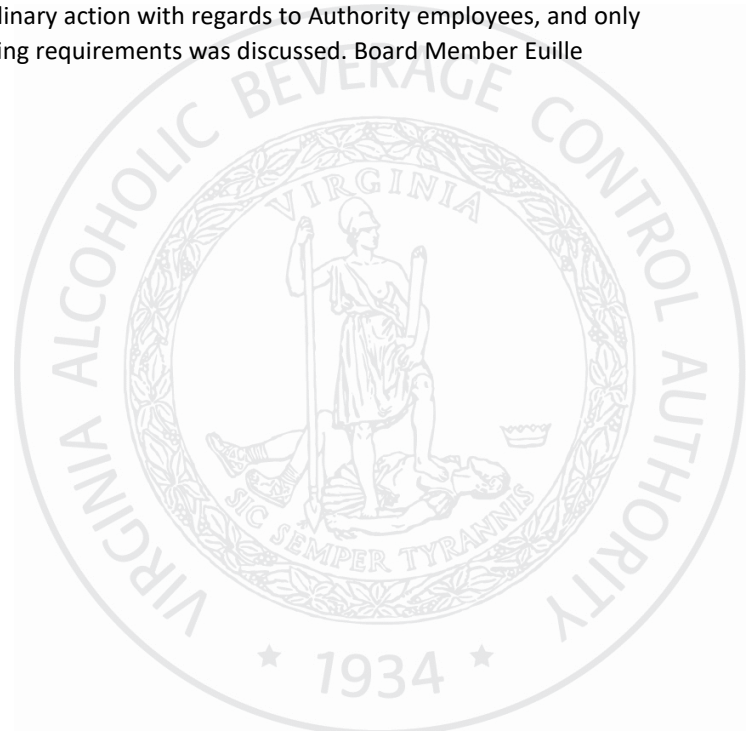
Thursday, July 20 – Board Meeting

Tuesday, September 12 – Board Meeting

Wednesday, November 1 – Board Meeting

Meeting Adjournment

Meeting adjournment at 11:11 a.m.



Freedom of Information Act (FOIA)

1. Jeremiah Pattison – May 22 – This email is related to this VA ABC publication: <https://www.abc.virginia.gov/about/media-room/2023/05192023-review-of-recent-lottery>. Through FOIA, I am kindly requesting the full technical details on the entire VA ABC Lottery process, including, but limited to, the following information: (1) Mechanisms and process for lottery entry and safe keeping; (2) Mechanisms and process for winning entry selection; (3) The source of randomness (entropy) for winning entry selection; (4) Source code and compiled binaries (executables), configuration files used for the lottery, to include all revisions of the software. Assuming a sourcecode management software (ie. version control software) (like Git) is used, I ask for all commits dating back a year; (5) Details on the system used to conduct the lottery (operating system, dependencies, libraries used, development environment; (6) Names and models of any hardware providing randomness/entropy; (7) Full system and security logs of all access to the computer systems involved in the above; (8) The process VA ABC used to validate and verify the proper functionality and randomness of the system; (9) The results/reports from any in-house or 3rd party audits/tests on the system
2. Brendan Ponton (Reporter, WTKR-TV) – May 22 – the names, products won, and dates of all limited availability product lottery winners from Jan. 2018 to present
3. Shane Mizelle – May 22 – information on how the results and how the winners were drawn on the recent Buffalo Trace Lottery.
4. Scott Flax – May 22 – Requesting all communications related to the below press release: <https://www.abc.virginia.gov/about/media-room/2023/05192023-review-of-recent-lottery> - Including: When Virginia ABC first realized there was an error with the BTAC Lottery drawing and why the "Internal Audit" team did not step in to correct/verify the results; Who made the decision to honor the results of the lottery drawing; Why was the decision made to honor the lottery drawing; What changes to policies/procedures/lottery rules or additional layers of review are being made to ensure that lottery drawing are truly random
5. Nelson Guimond – May 22 – 1) I would like to request a copy of the lottery drawing results, preferably in an excel spreadsheet, for all Virginia ABC lottery results/winners for all Virginia ABC lotteries held from March 8, 2021 through today (including the most recent lottery that was announced on May 15, 2023). Including the clean and un-changed original copy of entrants(as per step 2 of "Processing Lottery Entries" provided by FOIA request dated March 10, 2023) as well as the final results denoting winners and non-winners. 2) I would also like to request, preferably in an excel spreadsheet, all licensees who received any limited availability/lottery bottles during the same time period (and if a lottery process used for Licensees the same clean and un-changed original copy of entrants as well as final results denoted in the above request). 3) I would also like to request further information and documentation as it relates to the "reserve bottles" denoted in Step 9 of the Steps listed in the FOIA request dated March 10, 2023. 4) I would also like to request, preferably in an excel spreadsheet, all purchase orders and all receipts for products manufactured by Sazerac Company, Inc. (or any of its subsidiaries, including but not limited to A. Smith Bowman Distillery, Barton 1792 Distillery, and Buffalo Trace Distillery) for the years 2021, 2022, and 2023; 5) I would also like to request, as per the FOIA request dated March 10, 2023, the written policies and procedures regarding how the Virginia ABC's Internal Audit Team observes and certifies the results of lottery drawings.
6. Meghan McIntyre (Virginia Mercury) – May 19 – emails with the keywords on "SingleStone", "Dominion Digital" or "Thought Logic" sent or received between August 1, 2021 and May 19, 2023 by Travis Hill, Vida Williams and Elizabeth Chu; documents or other records on statements of work and deliverables for SingleStone, Dominion Digital, Inc. and Thought Logic sent or received between August 1, 2021 and May 19, 2023 by Travis Hill, Vida Williams and Elizabeth Chu.
7. Jay Schaefer – May 19 – I am requesting the winners list for the April lottery drawing for the BTAC products. It has been reported that a statistically improbable number of winners won 2, 3, and even 4 bottles. I'd like to verify the accuracy of these reports.
8. Ari Perlman – May 16 - list of winners and the bottles they won from the May 15th lottery; XLS file used to select winners, including all columns and tabs. This should include the Random Numbers generated for each entrant by bottle.
9. Scott Flax – May 12 – list of winners of recent lottery.