

MINUTES**ARKANSAS LOTTERY COMMISSION****Wednesday, June 25, 2014****10:00 a.m.****124 West Capitol Avenue, Third Floor
Little Rock, Arkansas****Call to Order**

Chairman Campbell called the meeting to order. Commissioners Baldrige, Pierce, Frazier, Engstrom, Streett and Scott were also present. Staff members present included Director Bishop Woosley, Matt Brown, Jean Block, Jerry Fetzer, Robert Stebbins, Joanna Bunten, Angela Meredith, Patti Vick, Maria Craig, Terry Williams, Valerie Basham, and Jeremy Smith.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on May 21, 2014. Commissioner Engstrom moved to accept the minutes and the motion was seconded by Commissioner Frazier. The motion was approved unanimously.

Report from the Internal Auditor

Internal Auditor Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that Project No. 1, Online Games & Gaming System Contract Compliance audit, was substantially complete, with only final fieldwork wrap-up and reporting remaining. Project No. 17, Security Investigations audit, was complete and a final report was issued on June 2. An observation in this report noted that of 40 case files selected for testing for FY 2013, two case files were missing. No missing or incomplete case file documentation was noted for FY 2014 in the files selected for testing; IA concluded that management had effectively implemented procedures to ensure cases are fully documented. Project No. 29, Payroll and Leave audit, was substantially complete pending receipt of final information needed to complete the reporting process. Mr. Brown reported that Project No. 38, an audit of IT General Controls, had kicked off on May 8 and fieldwork was ongoing. Project 40A, Transparency Reporting and Compliance audit, was substantially complete and IA Brown stated that report issuance was expected prior to June 30. Project 46, a consulting project of a coordinated security review of the instant ticket vendor (SGI) with an outside firm, was complete and a report was issued on June 17.

Mr. Brown also reported on follow-up audit projects that had resulted from previous audits. Project No. 14F2 was an audit follow-up of the Back Office System (BOS) administration follow-up procedures. A final report was issued on June 12. Observations noted included (1) users with access levels that appeared outside the level of access needed for completion of their assigned duties and (2) lack of evidence of review of the monthly user access/outside user confirmation by the Director or Deputy Director of the Security Division, as suggested in the initial audit. Management responded that corrective measures have been taken. Mr. Brown stated that additional follow-up testing in FY 2015 would be necessary to consider both

observations cleared. Audit follow-up Project No. 19F, Human Resources Processes, was substantially complete, pending receipt of final information to complete the report. Audit follow-up Project No. 47F, Instant Ticket Reconstructions, was complete and a report was issued on May 22, with no observations or recommendations to report.

Mr. Brown noted that there were several incomplete supplemental audit projects that had been approved for FY 2014, should all planned projects be completed ahead of schedule. These incomplete audit projects will be prioritized for completion after follow-up projects.

Commissioner Campbell asked Mr. Brown if there had been further discussion regarding an Internal Audit hire [for performing draws]. Mr. Brown said that it was his understanding that any new C positions would have to be created by splitting up an N position and that these changes would have to be brought before the ALC Legislative Oversight Committee for review. He added that the subject of an internal audit hire would be discussed in more detail at the next ALC Audit & Legal Committee meeting in July.

Commissioner Campbell recognized Commissioner Baldrige, who broached the subject of the Claim Center leases, which were coming up for renewal this year. She said she would support the staff in looking into alternative possibilities for one or more of the claim centers, including partnering with local retailers to cash tickets. She added that this would free up the claim center employees to do promotional or sales work. She said that there were alternatives that did not require two employees to remain on site for eight hours a day, five days a week, to cash six claims during that week, and that there were other states that used retail cashers. Commissioner Pierce asked Commissioner Baldrige which claim centers she had in mind and she responded that she was not sure, but that she did know [the Lottery] currently had six employees who, through no fault of their own, had low productivity and high overhead expenses in 1,600-1,800 square-foot office spaces in three cities. She said it was possible that one, two or three of those cities could get by with having the office open to cash tickets maybe one day a week, or, if there was a retail partnership, ALC could have the retailer cash all the tickets up to a certain amount and for any amount over that the winner could drive to Little Rock.

Director Woosley said that management was in the process of enlisting some of the claim center employees to help with distribution of POS (point-of-sale) materials, to visit prospective retailers, and to help with regional promotional events. He said that debt set-off was the only issue he could see in the use of retailer ticket-cashing partnerships, and that maybe there was a work-around for that issue.

Commissioner Engstrom reminded the Commission about the call center help that was provided to ALC under the SGI contract. He suggested that if the instant ticket contract is renegotiated, ALC consider the disestablishment of the call centers and that ALC instead use claim center employees for sales calls.

Report from the Director

Director Woosley noted that there was the possibility of a Special Legislative Session. He said he wanted to make sure that, in the event the lottery made it on to the Call, it was okay for him to negotiate with legislators on behalf of the Commission regarding monitor games. Commissioner Engstrom asked if he was asking permission of the Commission without [the Commission] voting on anything. Director Woosley responded that it was conceivable that legislators may try to limit things such as location of the games. Commissioner Engstrom asked if negotiations such as that would legally bind the Commission and Director Woosley said that he believed from a legislative standpoint, it would. Commissioner Pierce asked Director Woosley if there were concessions in his mind that he would be willing to make and Director Woosley responded that was not necessarily the case, but that by the force of the will of the Legislature, he might be put in that sort of position. Commissioner Streett said that he did not think it was a good idea to negotiate, and he wanted that to go on record. He added that he had the world of confidence in the Director but repeated that he didn't think it was a good idea. Commissioner Baldrige said that tampering with games by placing limits on them could be so damaging it might make the product almost not worth the trouble. Her thought was that the Director would have to be able to sell based on market conditions and that the Commission shouldn't hamstring itself by allowing limits to be placed on the product. After considerable discussion, it was decided that if there was a Special Legislative Session and if monitor games were placed on the Call, Director Woosley would not negotiate with legislators.

Director Woosley said that he could not remember whether or not the Commission had voted for the one-year extension of the current advertising contract with The Communications Group, but that it would be presented to the LOC for review on June 30, so he wanted to make sure it had already been approved for extension. Commissioner Baldrige said that it had already been approved.*

Director Woosley said he had very exciting news, and announced to the Commission that the Lottery had recently partnered with Wal-Mart to Go in Bentonville. He added that it was the second lottery in the U.S. to partner with Wal-Mart. He gave kudos to Robert Stebbins and his staff, and he also thanked Jean Block for her help in working on the contract. He said that there had been a lot of work involved in getting the store ready to sell lottery tickets, but that everyone did an excellent job in pulling it all together.

Director Woosley next reported on the Comparative Income Statements. Instant ticket sales were down \$2.2 Million for May 2014 compared to May 2013, and online ticket sales were down \$6.7 Million. He said that there had been a very large Powerball jackpot in May 2013, which distorted the numbers quite a bit. Overall sales in May 2014 compared to May 2013 were down about \$8.9 Million. In reviewing the Comparative Income Statement, May 2014 Versus Budget, Director Woosley reported that net proceeds were pretty much on target with

* After thorough review of the record, it was determined that although there had been discussion of extending the current advertising contract, the Commission had not voted to approve the extension. A Special ALC meeting was called on June 27, 2014, and the Commission voted unanimously to approve the contract extension.

the revised numbers, with net proceeds of \$6.5 Million. The Comparative Income Statement for Year-to-Date May 2014 versus May 2013, reflected a \$27 Million decline, with the majority of that decline being instant tickets sales. Income before Transfers was down about \$7.9 Million. Director Woosley reported that the ADHE Transfer Analysis reflected that proceeds were down \$5.8 Million. He said it appeared that the Lottery would not meet the revised budget of \$82.7 Million, but would come in a little lower, around \$80.5 Million. He added that he relayed that information to ADHE Director Shane Broadway.

Director Woosley said that he recently attended a meeting in which Powerball was discussed at length. He learned that Powerball was down 27% on a national basis. There were several ideas discussed, including changing the matrix and capping the Powerball jackpot. He said that he voted against the changes discussed because they were ill-defined and he had concerns that there had already been too many changes to Powerball and players were confused. He said he anticipated that there would be further discussions on ways to improve the game and to boost sales.

He said that at that same meeting, there was a lot of discussion about the new national premium game, Monopoly Millionaires' Club. He said that the Lottery's first ticket sales for that game would begin on October 19. He added that there would also be a televised game show which is scheduled to premier in February 2015.

The Lottery is also joining Lucky for Life on January 29, 2015. He said that the game is already very successful in the states where it has been introduced and that he has high hopes for its success here in Arkansas. Sales will begin January 25, 2015, with the first draw on January 29, 2015. Twelve to fifteen other states are participating, mostly smaller states. He said the game would be replacing Decades of Dollars.

Commissioner Frazier asked if, assuming [the lottery] is unable to introduce monitor games, the new games would increase revenue enough to replace the anticipated monitor game revenue. Director Woosley said that one reason he was excited about monitor games was because they would be introduced to new retailers. The new games [i.e., Monopoly Millionaire and Lucky for Life] will be sold by existing retailers. He said that he was expecting Lucky for Life to over-perform. Monopoly Millionaire, on the other hand, was a brand-new concept and it would be soft-launched during the political ad period; he said he thought the growth would be incremental rather than fast.

Director Woosley then reported on the Supplemental Advertising RFQ. He said the RFQ had been issued in May and there were four bidders who submitted proposals: Martin-Wilbourn Partners; Mangan Holcomb Partners; Mitchell Communications Group; and Hunter Gray Associates. Three of the agencies, Mangan Holcomb, Mitchell Communications, and Hunter Gray, gave presentations. Mangan Holcomb Partners and Mitchell Communications Group met the requirements of the RFQ and Director Woosley asked the Commission for permission to use them for the purposes as set forth in the Supplemental Advertising RFQ. **Commissioner Scott**

made a motion to approve the request to offer Supplemental Advertising contracts to Mangan Holcomb Partners and Mitchell Communications Group. Commissioner Engstrom seconded the motion. The motion passed unanimously. Director Woosley advised the Commission that the contracts offered to the two agencies would be forwarded to the ALC Legislative Oversight Committee for review. Commissioner Engstrom asked the Marketing & Advertising division to follow the two contracts closely and to ensure that a study of the Return on Investment is done.

Commissioner Scott asked Director Woosley if there was anything on the horizon regarding college advertising. Director Woosley said that there were very tentative and informal proposals from ASU, UCA, and UAPB, and staff met with University of Arkansas representatives yesterday. He said he was very hopeful and he added that ALC would be modeling its approach [to college advertising] after those states that have been successful. Commissioner Engstrom stated that there were some newspaper editorials that were insinuating that ALC would use the college advertising to entice students to play the lottery. He said it was his understanding that ALC would be advertising the good that [the lottery] does. Director Woosley said that advertising would be beneficiary-based. He said that ALC did have intentions of partnering with schools, obtaining licenses to sell tickets with their images on them.

Reports from ALC Committees

Personnel Committee: Commissioner Scott reported that the Personnel Committee had met twice, on June 4 and again this morning. He said that on June 4th, the committee unanimously voted to support the Director's recommendation to hire Patrick Ralston as the new Executive Assistant/Public Relations and Legislative Liaison, at a salary of \$88,957. He said that Mr. Ralston had supported the Lottery since its inception while he was an employee of the Bureau of Legislative Research (BLR) and that he had been a tremendous help to the Commission. Director Woosley added that Mr. Ralston would be joining ALC staff on July 1, and he introduced Rebeca Whorton, the new ALC liaison at the BLR. **Commissioner Scott made a motion to proceed with the hiring of Mr. Ralston at the annual salary of \$88,957 and Commissioner Baldrige seconded the motion. The motion passed unanimously.**

Commissioner Scott then reported that today the Personnel Committee received a recommendation from Director Woosley to hire Mr. Daryl Backes as the Director of Security at a salary of \$98,500. Mr. Backes will be replacing Lance Huey, who is retiring at the end of the month. Commissioner Scott said that Mr. Backes was currently holding a similar position at the Missouri State Lottery and he had 29 years of lottery security experience. **Commissioner Scott made a motion to accept the hiring of Daryl Backes at an annual salary of \$98,500 and Commissioner Baldrige seconded the motion. The motion passed unanimously.**

Vendor Committee: Commissioner Engstrom reported that the committee had met today to consider the issuance of a Performance Audit RFP. He explained that initially the RFP was drafted with the understanding that it would be guided by the Division of Legislative Audit (DLA). After further review, DLA had determined that its agency did not need to be involved in the Performance Audit. The RFP was rewritten to exclude all references to DLA and the rewritten document was presented to the committee this morning. Commissioner Engstrom added that nothing substantive had been changed. **Commissioner Engstrom made a motion for the Commission to approve the Performance Audit RFP. Commissioner Baldrige seconded the motion and the motion passed without dissent.**

Commissioner Engstrom stated that the only other information he had to report was that he had been working closely with Director Woosley on the potential to negotiate the online contract and he said that they had been moving forward. He said that they were still in the process, but that soon they hoped to have enough information to accurately and fairly evaluate a proposal, and that he was also hopeful that they would arrive at something that was favorable to all sides.

Higher Education Committee: Nothing to report.

Audit and Legal Committee: Nothing to report.

Retail and Marketing Committee: nothing to report.

Commissioner Baldrige said that once Patrick Ralston comes onboard, she would like for the Commission to be re-staffed so that they receive information on a day-to-day basis, as was done in the past.

Executive Session

Chairman Campbell stated that the Commission would go into Executive Session for completion of evaluations regarding its two employees and that the Commission would ask each of them to meet with them at the appropriate time. **Commissioner Engstrom made a motion for the Commission to go into Executive Session, Commissioner Scott seconded the motion, and the motion passed unanimously.**

Return to Open Meeting

Chairman Campbell stated that during executive session, no resolution, ordinance, rule, contract, regulation, or motion was considered or arrived at during that time, and that the evaluation process was now complete.

Other Business

Commissioner Frazier made a motion to send to the Personnel Committee for revision the performance evaluation forms that are currently being used to evaluate its personnel. The revised forms would then be sent to the Commission for final approval so that the new forms

could be used next year. Commissioner Scott seconded the motion and the motion passed unanimously.

Commissioner Engstrom made a motion to approve merit bonus payments for Director Woosley and Internal Auditor Brown in accordance with the formula in the current OPM memo. Commissioner Frazier seconded the motion. The motion passed unanimously.

Meeting Date

Chairman Campbell said the next meeting date had not been set and was still under discussion, but the press would be notified if there was, or was not, a meeting.

There being no further business, the meeting was adjourned.