

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, January 15, 2014

10:00 a.m.

124 West Capitol Avenue, Third Floor
Little Rock, Arkansas

Call to Order

Chairman George Hammons called the meeting to order. Commissioners Smokey Campbell, Julie Baldrige, Ben Pickard, Dianne Lamberth, Raymond Frazier, Bruce Engstrom and Mark Scott were also present. Staff members present included Director Bishop Woosley, Matt Brown, Jean Block, Jerry Fetzer, Robert Stebbins, Joanna Bunten, Lance Huey, Angela Meredith, Patti Vick, Maria Craig, Terry Williams, Valerie Basham, Anita Junior, and Jeremy Smith.

Approval of Minutes

The first order of business was the approval of the minutes of the meetings held on December 2, 2013, and December 20, 2013. Commissioner Baldrige asked that a correction be made to the merit bonus language on page 3 of the December 2 minutes, replacing "*in* CY2014" to read "*for* CY2014." Commissioner Scott made a motion to approve the minutes as corrected, Commissioner Lamberth seconded the motion, and the minutes for December 2, 2013, were approved unanimously. Commissioner Frazier moved to accept the minutes of December 20, 2013, Commissioner Campbell seconded the motion, and the minutes were approved unanimously.

Financial Reimbursement Policy

Commissioner Campbell made the following motion:

I move to authorize expense reimbursement for the calendar year 2014 for each Arkansas Lottery Commissioner for performing official Commission duties, provided the expense reimbursement shall not exceed the rate established for state employees by state travel regulations.

Commissioner Pickard seconded the motion and the motion passed 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. 8, Points for Prizes and Play it Again Audit, was in the planning stages, with work to begin the week of January 20. Project No. 9, IT Gaming Operations, was also in the planning stages, with work to begin the week of January 20. Project No. 13, an audit of In-State Draw Security & Controls, was in process.

Consulting Project No. 45, Financial Statements and CAFR Review, was substantially complete, with final review and reporting still outstanding. Audit Project Nos. 47, Instant Ticket Reconstructions, was in its final stages, with final wrap-up and reporting underway. Audit Project No. 36A, Financial Accounting and CAFR, is also substantially complete, with final review and reporting outstanding.

Audit Project No. 30, an audit of Federal & State Tax Withholding and Reporting, was completed and a report was issued on January 10, 2014. Internal Audit made several observations during this audit, including one retailer that received a Form 1099 for 2012 that should not have received the form, four retailers who did not receive Form 1099 for 2012 but should have, and one retailer who received a Form 1099 that did not include all amounts earned in commissions by the retailer for that period. Management responded that it would take corrective action and develop processes to detect and prevent issues in the future. Another observation noted was that ALC was assessed and paid a penalty to the IRS in Calendar Year 2013 for tax year 2010, but that, to date, ALC management had been unable to obtain detailed information from the IRS to resolve the issue and seek reimbursement. The penalty amount was \$9,500, for "failure to furnish Taxpayer Identification Numbers," presumably as reported on form W2-G for player winnings. Internal Audit recommended that Management continue to contact the IRS until supporting documentation is received to support the penalty paid, and once the detail is received, Management begin efforts to demonstrate it has taken the actions necessary to receive a full or partial refund of the penalty paid. Internal Audit advised it would follow up as necessary in order to consider the observations cleared.

Report from the Director

Director Woosley was recognized to give his regular report (in file). He noted that instant ticket sales were down over \$3.6 Million in December 2013 compared to December 2012. On the other hand, online ticket sales in December 2013 were up over \$4.9 Million compared to December 2012, an 87.7% increase, which Director Woosley attributed to Raffle ticket sales and the large Mega Millions jackpot run that occurred in December 2013. Operating expenses, however, were exponentially larger because of the instant and online prizes, and the ALC ended up with net proceeds \$1.08 Million less compared to December 2012. He reported that the Mega Millions run in December, in which the \$636 Million jackpot was the highest on record, boosted sales, but not as much as had been anticipated. Additionally, the Arkansas Million Dollar Raffle, which ended at midnight on December 31, did not perform as well as expected, losing approximately \$284,000. He reported that ADHE transfers for the month of December were \$1.5 Million less than budgeted, and that the cumulative balance for Fiscal Year 2014 is \$3.8 Million less than budgeted. He stated that he and his team would be amending the projections for the remainder of the fiscal year to reflect the downward trend, and would be submitting a revised budget to the Commission in February.

Director Woosley said that recently an editorial had targeted his use of the term, "jackpot fatigue," in trying to explain the phenomenon of higher jackpots but lower sales. He introduced a graph which compared large jackpots in 2012 to similar jackpots in 2013. Powerball, for example, had a \$336,400 jackpot in February 2012 which produced ALC sales of \$7.23 Million.

In August 2013, a larger Powerball jackpot of \$399.4 Million drove ALC sales of \$5.79 Million. Mega Millions sales were also trending lower for larger jackpots. During the \$640 Million Mega Millions run which ended in March 2012, ALC sales were \$10.7 Million. A Mega Millions jackpot run of \$646 Million in December 2013 produced ALC sales that were considerably less, \$7.2 Million.

Chairman Hammons asked Director Woosley if there was a post-evaluation process in place for the performance of the Raffle. After much discussion, Commissioner Engstrom moved that lottery employees and Commissioner Baldrige provide a detailed review of the Raffle performance, and that Commissioner Baldrige and Director Woosley report back to the commission the results of the review. The motion was seconded by Commissioner Pickard. Commissioner Baldrige asked that the review be sent to the Vendor Committee. Commissioner Engstrom amended his motion accordingly, that lottery employees and the ALC Vendor Committee perform a detailed review of the Raffle and that the Vendor Committee and Director Woosley report back to the Commission the results of the review. The amended motion was seconded by Commissioner Pickard and the motion passed unanimously.

Director Woosley next reported that the Minority Business Enterprise Manager position had been advertised internally and interviews had been held, with CFO Fetzer currently reviewing the results of those interviews. Applications for the Public Affairs and Legislative Liaison Director's position continue to come in; he reported that he would be reviewing those applications that meet the minimum standards and start the interview process soon.

He reminded the Commission that he had sent an e-mail in recent weeks regarding the possibility of exiting the Decades of Dollars game. He explained that the game had not turned out as anticipated, either from a winner or revenue standpoint. He said that in searching for another multi-state game for ASL, he and his staff were considering "Lucky for Life," which is currently played by several Northeastern states. He added that the Decades of Dollars group had been told informally of ASL's intention of moving to another multi-state game, and that the "Lucky for Life" group had been advised that ASL was interested, and that when the time came to make the move to "Lucky for Life" or another multi-state game, he would bring it before the commission for approval.

Director Woosley introduced and welcomed Martha Hernandez, Scientific Games General Manager, who is now in working with ASL full time.

Director Woosley then gave a brief update on TVMs (ticket vending machines). He reported that 79 TVMs had been placed and 87 were dedicated (i.e., in various stages of the activation process). TVMs have earned approximately \$4.5 and \$4.7 million per year for the last two years. Commissioner Baldrige asked if it would be possible to get a summary of retailers who had installed TVMs, and whether or not their revenues had increased since installation of the machines. She also requested that the lottery try to identify those retailers who chose to sell lottery tickets solely because ALC had been able to provide them with a TVM. Director Woosley said he had discussed those TVM questions with Sales Director Stebbins, who would be

providing the most recent TVM data to him. Director Woosley also updated the commission on the deployment of PADs (Player Advertising Displays). He reported that 600 PADs had been distributed and that players throughout the state love them.

Next, Director Woosley said that he would be addressing bonding issues in more detail at next month's meeting. He explained that Sales Director Stebbins had told him earlier in the week that ALC would soon be losing 27 retailers due to bonding renewal issues. He advised that ALC frequently encountered the issue because surety bonding was so expensive, and in some cases, cost-prohibitive. Chairman Hammons asked that the subject of bonding be sent to the Retail and Marketing committee for discussion.

Reports from ALC Committees

Commissioner Pickard, chair of the Personnel Committee was recognized and he reported that a meeting would be held immediately following the present meeting.

Commissioner Campbell was recognized on behalf of the Retail and Marketing Committee. He made the motion to increase the ALC employee mileage rate from 42 cents per mile to the most current U.S. General Services Administration rate, which currently 56 cents per mile. At this point, Commissioner Doug Pierce joined the discussion via conference call.

Commissioner Pickard commented that he understood that the legislature had provided great leeway for the Lottery, but that now was not the time or place to exercise that authority. Commissioner Engstrom commented that the Lottery had attempted to have the ALC Legislative Oversight Committee offer its insight and the LOC had deferred to ALC.

Commissioner Frazier seconded Commissioner Campbell's motion. Commissioners Campbell, Engstrom, Pierce and Frazier voted for the motion. Commissioners Pickard, Lamberth, Scott and Baldrige voted against the motion. Chairman Hammons cast a tie-breaking vote for the motion, and the motion passed, to take effect immediately.

Other Business

Commissioner Baldrige reminded the commissioners that ALC claim centers and ALC advertising/marketing contracts were due for renewal this year and should be discussed as soon as possible. She requested that copies of the current contracts be sent to the members of the Audit & Legal Committee for review. She asked that Internal Audit's Claim Center Audit Report (November 2013) also be sent to those committee members.

Meeting Date

The next commission meeting was set for 10:00 a.m. on Wednesday, February 19, 2014.

There being no further business, the meeting was adjourned.