

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, October 16, 2013

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, Ben Pickard, Dianne Lamberth, Raymond Frazier, Bruce Engstrom and Mark Scott were also present. Commissioner Julie Baldrige was present via conference call. 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, Jeremy Smith, Valerie Basham and Justin Rogers.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on September 16, 2013. Commissioner Pickard made a motion to approve, Commissioner Frazier seconded the motion, and the minutes were approved unanimously.

Report from the Internal Auditor

Internal Auditor Brown was recognized to give his monthly Internal Audit Update (in file). He stated that Audit Project Number 15, Instant Ticket Warehouse Operations, was substantially complete and a report would be issued shortly. Internal Audit was in the early planning stage for Audit Project Number 23, Claim Center Operations. A report was issued on October 11 for Audit Project Number 39, Disaster Recovery/Business Continuity, with no observations or recommendations reported. He reported that on August 12, 2013, field work began on audit follow-up Project Number 14F, the Back Office System (BOS) Administration Follow-up Procedures, and that the work was nearing completion. He added that another audit follow-up, Project Number 36F, Accounting Close & Reporting Follow-Up Procedures, was also nearing completion. A summary report was issued on September 25 for Project Number 44, Gaming System SSAE SOC1 annual review. Mr. Brown reported that substantial work was expected to be completed within the next few weeks on the annual Financial Statements & CAFR Review, Project Number 45. Substantial work was also expected to begin on Project Number 36A, Financial Accounting & CAFR.

Commissioner Engstrom asked Mr. Brown if an audit project could be added to the Audit Plan that would cover all of the appropriate steps leading up to the expiration/rebidding of vendor contracts. Mr. Brown responded that the proposed audit project would have to be brought before the Audit and Legal Committee for discussion and possible incorporation into the Audit Plan.

Report from the Director

Director Woosley was recognized to give his regular report (in file). He reported that total revenues for September were up over \$2 Million compared to September of last year, mostly related to the recent \$400 million Powerball jackpot. He added that, although Powerball sales were brisk, lotteries throughout the U.S. are reporting that online ticket sales are still not performing up to expectation, possibly because of jackpot fatigue.

Although sales in September 2013 exceeded sales in September 2012, net proceeds for the same period were down over \$500,000, which Director Woosley attributed to accounting adjustments; he called on ALC's Chief Fiscal Officer Fetzer to explain. Mr. Fetzer said that, from the conception of the lottery, for the calculation of net proceeds it was decided to adjust revenue and the related prize expense to the cash basis calculation which, overall, increases net proceeds, but it does create a deficit in ALC's unrestricted net assets. Because of the cash adjustment to the cash basis for the net proceeds calculation, once ALC calculates the net operating revenue, the net proceeds amount can either swing an additional amount upward or, as in the case this month, downward. Whenever ALC has a \$1 million dollar prize, the impact to the lottery proceeds is not \$1 million dollars, but \$1 million dollars plus whatever impact there is from the change in the prize accrual.

Commissioner Scott asked why ALC budgeted over \$28 Million in sales for the month of September 2013, when the amount earned in September 2012 was under \$24 Million. Director Woosley responded that it depends on ALC's launch schedule. He said that, additionally, based on a \$400 million Powerball jackpot last year, the sales were double during that period compared to the same sized jackpot this year and the anticipation was that the trend would continue. Mr. Fetzer added that the reason \$28.5 million was budgeted for September 2013 was because, in order to meet the \$89 million budgeted for the year, if ALC didn't make the additional \$5 million that particular month, it would have to be made up some other month.

Director Woosley next discussed the ADHE Transfer Analysis for the current fiscal year. He stated that net proceeds for September 2013 were about \$637,000 under the amount budgeted for the month, with an overall budget deficit of \$1.09 Million for the year. Commissioner Pickard asked at what point ALC would need to consider revising the budget. Director Woosley responded that in those years in which the Lottery has revised the budget, it has typically occurred around the January time frame. He explained that, generally, LOC may ask, mid-year, what amount of net proceeds the Lottery anticipated for the fiscal year. The Lottery, in trying to provide the most accurate number, could possibly revise the budget at that time. He said that the Lottery's projection was currently off about \$80,000 for the year, and that he hoped the trends would pick up and the budget would not need to be revised.

Director Woosley gave an update on the Million Dollar Raffle, which began selling in August. He said that sales started slowly, with a sharp spike in sales immediately before the October 1st Early Bird drawing. He compared those sales to the Lottery's first raffle (2010), in which sales were constantly flat, since there were no Early Bird drawings to incentivize the players. He noted that the Lottery was currently offering a Clerk Incentive promotion: every time a clerk or retailer sells a \$20 or \$30 Raffle ticket during the promotional period, a \$1 Hunting for Hundreds ticket will print for free for the CLERK or RETAILER who sells the ticket. Commissioner Lamberth asked where the Early Bird drawing winners were posted. Director Woosley responded that winners are posted on the Arkansas Scholarship Lottery website, as well as on the ASL mobile application. Commissioner Lamberth asked if there were other places in which they could find the winning numbers/winners. Gaming Director Smith told her that players can find the winners at the retailer level; the retailer could print a report for the player. Director Woosley added that Marketing Director Bunten also had an arrangement with KATV, ALC's raffle draw partner, to announce the winning numbers throughout the day of the draw. Chairman Hammons asked why the raffle sales seemed to be a bit depressed compared to sales of the last raffle. Director Woosley said that it seems to actually be doing a little better than the last one. The sales have been slower at the beginning, but the graph reflected the sharp spike upward as the date of the Early Bird draw approached - that raffle ticket purchasers, being creatures of habit, tend to wait and buy their tickets close to the deadline.

Director Woosley then reported that he, Commissioner Pickard, and Commissioner Frazier attended a banquet at the AASAP Conference on October 6, where they, along with Intralot representative Robert Hilderbrand and Scientific Games representative Martha Hernandez, presented checks to those Upward Bound programs in attendance at the Conference (the entire list of 20 recipients is included in the September 16 ALC minutes). Director Woosley said that the schools asked that he pass along to the vendors and the ALC Commissioners how grateful they were to receive the funds. Commissioner Pickard noted that the Upward Bound programs, being federally funded, had already been hit by the Sequester and that money will be put to good use, either in purchasing hardware or software for their programs.

Director Woosley reported that the Lottery had just celebrated its 4th anniversary. He noted that Sales to Date were over \$1.8 Billion, Prizes Paid to Date were over \$1.16 Billion, Retailer Commissions and Bonuses to Date were \$103.7 Million and Scholarships Awarded totaled over \$482 Million.

Reports from ALC Committees

Chairman Hammons recognized Commissioner Pickard to give his Personnel Committee report. Commissioner Pickard presented to the Commission the following motion:

On September 16 the ALC Personnel Committee met and unanimously approved a change to the evaluation period to have an end of May

deadline for the current fiscal year, with merit recommendations payable on the last payday of the current fiscal year.

The motion was seconded by Commissioner Scott. Before bringing the motion to a final vote, Chairman Hammons asked Commissioner Pickard to explain the rationale for changing the evaluation period. Commissioner Pickard responded that the ALC evaluation process currently runs a year behind the pay process, that is, employees are evaluated on performance from the previous fiscal year, and that as a consequence, the incentive was missing and training opportunities lost. Chairman Hammons called for the Commission to vote and the motion passed unanimously.

Chairman Hammons recognized Commissioner Scott to report on the Retail and Marketing Committee. Commissioner Scott reported that, in Commissioner Pierce's stead, he had distributed to committee members the record of the meeting held on September 16. Commissioner Scott said that the Retail and Marketing Committee would meet again at 9:30 on the day of the next full Commission meeting.

Chairman Hammons again recognized Commissioner Scott to report on the Vendor Committee meeting held this morning [October 16]. He reported that as a follow up to that meeting, Lottery staff was producing a time line in anticipation of the expiration of vendor contracts, and would receive that report at the next Vendor Committee meeting.

Meeting Date

The next commission meeting was set for 10:00 a.m. on Monday, December 2, 2013.

There being no further business, the meeting was adjourned.