

MINUTES
ARKANSAS LOTTERY COMMISSION
Wednesday, April 11, 2012
1:30 p.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order. In attendance also were Commissioners Pickard, Campbell, Engstrom, Faris, Frazier, Hammons, Shipp and by telephone Malone. The ASL was represented by Director Woosley, Internal Auditor Hyde, Julie Baldrige, Patti Vick, Jerry Fetzer, Robert Stebbins, Joanna Bunten, Mike Smith, Anita Junior, Lance Huey, Valerie Basham, Jeremy Smith, Remmele Mazyck, Demetria King, and Whitnie Hall.

Chairman Lamberth requested approval of the minutes of the March 27 meeting, and after motion of Commissioner Shipp, seconded by Commissioner Frazier, the minutes were approved without dissent.

Chairman Lamberth next opened to the discussion of the Decades of Dollars audit, asking Director Woosley to explain. He said that under the terms of the Decades agreement, certain procedures must be audited annually, and it is time to begin preparation for that audit. The draw game is in its first year, and therefore this will be the first audit. The choices are to ask the Division of Legislative Audit to conduct the audit or to bid the audit out through the DLA. By motion of Commissioner Faris, seconded by Commissioner Pickard, the Commission approved without dissent asking DLA to conduct the Decades of Dollars audit. Director Woosley will contact DLA.

Commissioner Engstrom, returning to the March 27 minutes, called attention to his remark regarding being "screwed" and asked that it be rephrased as a question.

Commissioner Lamberth, introducing Internal Auditor Hyde for his vendor audit of the instant ticket contract and Recital of Selected Options amendment of 2009, asked that all questions be held until the end. Commissioner Shipp asked that Mr. Hyde present only new information and, in the interest of time, refrain from rehashing matters previously presented, discussed or reviewed. There were no objections. Mr. Hyde said that left only his recommendations, all four essentially the same, involving Tel-Sell, exclusivity, and Properties Plus. Commissioner Lamberth quizzed Mr. Hyde on why he called the final audit a Special Report (full document in file). He said it was a tight span so they put out a special report. Commissioner Shipp asked if any of his findings changed, and he said they did not. Commissioner Lamberth said she objected to the document being called a Special Report since the Commission had asked for an audit. Mr. Hyde mentioned pricing changes, Commissioner Engstrom said he saw reasons to seek legal guidance: Governor Beebe's television appearance, possible legislative concern, and no opinion from the Attorney General. Commissioner Lamberth said the Commission welcomes input from the Governor at any time.

Commissioner Lamberth read into the record a letter from Senator Johnny Key and Representative Mark Perry, Co-Chairs of the Legislative Oversight Committee (included in file). The letter confirmed Director Woosley's assertions that the original contract was affirmed by LOC at a 1.75%; that the Legislative Auditors had called out the Lottery management in fall

2010 because an amendment to the original contract had been signed without approval of the Commission or review by LOC; that the Lottery and the LOC had agreed on a process for such matters that had been followed from that point forward, including a clearing of the 2010 finding on the matter by both the DLA and the ALC Internal Auditor; and stating that the LOC anticipates no further review of the matter. Commissioner Engstrom asked Patrick Ralston, Bureau of Legislative Research staff for the LOC, whether the LOC performed an economic impact study and was told they did not. Director Woosley noted that all bidders made a specific reference to working with the ALC telemarketing staff and none evaluated a cost for implementing the telemarketing program for the Lottery. He said that SGI had extended its offer through today to provide \$2.2 Million in benefits to the Lottery and to relax exclusivity somewhat. He said he was recommending four linked games such as Wheel of Fortune and The Price Is Right with clarifications and a future rate card.

Commissioner Hammons asked for a technical clarification, noting that he understood there were three proposals in response to the instant ticket RFP, and three evaluators, and that early start up and cost were assessed. He also noted that the choice on the SGI proposal was 1.75% or 1.15% if Properties Plus was implemented at the time of the contract plus 2.3078% for the prize pool. Director Woosley answered that the 1.75% choice was implemented in the contract that was signed and approved. Commissioner Engstrom asked why Director Passailaigue didn't go back to the 1.15% option when he decided to add Properties Plus. Discussion followed.

By motion of Commissioner Pickard, seconded by Commissioner Frazier, it was proposed to reaffirm the Scientific Games contract and charge Director Woosley to finalize negotiations underway to revise the Scientific Games contract and report results of those negotiations back to the Commission and to the LOC. Commissioner Engstrom recommended delaying the vote. Commissioner Frazier said discussion could continue following affirmation of an existing contract. Commissioner Engstrom said a vote would preclude seeking redress. By a vote of seven to two, with Commissioners Engstrom and Hammons voting no, the motion passed.

Commissioner Lamberth said that the next item on the agenda was to discuss vendor offers, and Director Woosley said that the previous vote directed him on that matter. He said that he was not prepared to bring the Intralot offer. Commissioner Engstrom recommended that the Commission give the Director access to outside counsel, and the Commissioners had no objection.

Director Woosley was recognized to give his monthly report (included in file). He said the exciting news was that the \$640 Million Mega Millions jackpot drove sales to \$4.6 Million more in March 2012 than in March 2011. Commissioner Engstrom pointed out that the percentage of funds returned to the education trust from gross sales was much higher and said he was pleased. The Director said that scholarships for the Fiscal Year were \$73.7 Million with three months remaining. Commissioner Pickard said that he had often suggested setting a goal to move toward a 25% return and that he was very pleased. Mr. Woosley said that having draw games allowed into the Points for Prizes/Players Club should boost draw sales, which improves the percentage. He said that he expected to meet or exceed the \$94.2 Million in scholarship funds set in FY2011. He noted that the Lottery had seen two record sales months in the past two months, and one day had doubled the previous record day. Last, he said that there would be a record monthly education transfer at \$12.8 Million, almost \$2 Million higher than and the previous education high. He also pointed out the record draw sales day and month in March. He said he hoped to learn the pattern of lower sales months and to target promotions and advertising to assist sales in those months. He said that the sales of tickets in the claim

centers would begin in May at the Springdale center. Internal controls have been implemented to handle cash.

Commissioner Lamberth announced that, following a short break, the Commission would go into Executive Session for the purpose of discussing the evaluation of the Internal Auditor and the Director. Upon reconvening following the session, she announced that no action was taken in Executive Session. She said that the evaluations would be concluded at the end of the May meeting. In other business, Commissioner Malone announced that a tri-commission dinner would be hosted that evening in Northwest Arkansas: Parks and Tourism, Highway, and Economic Development. He said that it had been a long while since the ALC had held meetings around the state. He further noted that holding meetings on college campuses was a good reminder of the ALC mission. He said he wanted to invite the Commission to meet in western Arkansas and make a custom of meeting at campuses from time to time throughout the year. The Commissioners indicated an agreement, and it was decided that Commissioner Malone and Director Woosley would work toward a meeting in Northwest Arkansas.

There being no further business, the meeting was adjourned.