

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, April 16, 2014

10:00 a.m.

**124 West Capitol Avenue, Third Floor
Little Rock, Arkansas**

Call to Order

Commissioner Smokey Campbell called the meeting to order. Commissioners Julie Baldrige, Dianne Lamberth, Raymond Frazier, Bruce Engstrom, Mark Scott, Doug Pierce and Alex Streett 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, and Jeremy Smith.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on March 19, 2014. Commissioner Engstrom moved to accept the minutes, and the motion was seconded by Commissioner Frazier. The motion was approved unanimously.

Lottery Scholarship Recipient Candace Stratford

Commissioner Campbell recognized Director Woosley, who introduced Candace Stratford, a University of Arkansas at Little Rock student and Arkansas Academic Challenge Scholarship recipient. Ms. Stratford thanked the commission, explaining that she had begun college in 2000, but had to drop out in her sophomore year. Several years later she was able to return to college and was awarded the lottery-funded scholarship as a non-traditional student.

Staff Evaluation Presentation

Maureen Moffit, from Mitchell Communications Group, gave a presentation (in file) to the Commission about best practices regarding employee evaluations.

Report from the Internal Auditor

Internal Auditor Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that fieldwork on Audit Project No. 7 began the week of April 7 and was ongoing. Audit Project No. 9, IT Gaming Operations, was completed and report was issued on April 3. No observations or recommendations were included in the report. Audit Project No. 17, Security Investigations, is in the planning stage, with the audit kick-off meeting set to begin the week of April 28. Audit 40A, Transparency Reporting and Compliance, is also set to kick off the week of April 28. Audit Project No. 29, Payroll and Leave, is in progress. Internal Audit will be requesting ALC Audit & Legal Committee approval to defer Project No. 43, a consulting project to facilitate and review the Risk Assessment required by DFA, due to a timeline change by ALC management. Project No. 46, a consulting project for the Instant Ticket Vendor Security Review, is in progress. Internal Audit expects to receive a report and analyze the results no

later than June 15, 2014. Mr. Brown also reported that Project No. 23F, an audit follow-up on Claim Center Operations Follow-Up Procedures, was complete and a report was issued on April 3, 2014. An observation was made that inaccurate and inconsistent data remained on the Ineligible Players List that could lead to the ALC's erroneous payment of a claim to an individual not eligible to claim a prize of \$500 or more according to Arkansas Law and ALC's Operational Rules. ALC Management has effectively implemented a process to capture ineligible player information. Several commissioners raised concerns about listing children of Commissioners and ALC employees on the Ineligible Players List and discussion followed. **Commissioner Engstrom made a motion that the requirement to list all household members on the Ineligible Players List be revised to list all members of the household aged 17 years and older on the Ineligible Players List. Commissioner Baldrige seconded the motion. The motion passed unanimously.**

Report from the Director

In reviewing the Comparative Income Statements March 2014 and 2013, Director Woosley reported that instant tickets were down \$5.5 million for the month of March 2014 compared to the same period last year. Net proceeds were down \$2.4 million in March 2014 compared to March 2013.

Presenting the March 2014 Actual Versus Budget Statement, he noted that total revenues were up \$512,233 compared to the revised budgeted amount. Online ticket sales were slightly less than anticipated, but not alarmingly so. Instant game prizes were a bit higher than anticipated because of a \$1 million instant ticket winner this month. Actual net proceeds were \$395,162 less than budgeted, most of which could be attributed to the \$1 million winner.

He reported that year to date, revenues were down \$16.9 million compared to YTD 2013. Income before transfers was down \$5.2 million compared to last year and net proceeds were down \$7.7 million compared to the same period in 2013.

In the ADHE Transfer Analysis, he reported that ALC had transferred \$7.3 million in the month of March, just slightly less than budgeted for the month. Total transfers to ADHE for the year thus far total \$65,770,426, which includes \$4.4 million in unclaimed prizes.

Director Woosley reported that there are coupon promotions ongoing. An April/May coupon was sent to members of the Players Club and a May/June mail coupon will be sent to over 1 million households.

He announced that the Multi-State Lottery Association (MUSL) recently notified the lottery that ALC would be receiving a \$128,182 refund from the MUSL Reserves account. The refund will go directly into the net proceeds account in April.

Director Woosley next reported that there was a debit card survey conducted in March 2014 [by Strategic Market Research], which was a state-wide survey of 500 Arkansans who responded either by telephone or online. He said that one of the more compelling statistics of

the survey was that 55% of lottery players responded that there have been times in the past that they have not purchased a lottery ticket because they did not have cash on hand. Of the 500 Arkansans who responded to the survey, including both lottery players and non-players, 49% reported that there were times they had not purchased a ticket because they did not have cash on hand.

Director Woosley asked Ms. Bunten to present her report on a recently conducted Lottery Awareness Tracking Study [by Strategic Market Research](in file). She stated that the survey was conducted in March 2014 and was used to track measurements of a similar survey that was performed in March 2013. She added that the March 2014 survey included additional questions related to debit card preference and jackpots. The survey was conducted by telephone and online and utilized a sample of 500 Arkansas adults aged 18 years and older. The survey categories included: Frequency of Play; Jackpot Levels; Advertising Awareness; Ad Awareness and Frequency of Play; Winner Awareness; and Beneficiary Awareness.

Regarding frequency of play, it was noted that 44% of people surveyed said they played the lottery often or sometimes. The percentage of those who play the lottery *often* declined from 18% in 2013 to 15% in 2014. Those who play *sometimes* decreased by 2%.

When respondents were asked if they played Powerball and Mega Millions when the jackpot reached a certain level, 29% said that they play the lottery regardless of the jackpot level. 17% of the respondents said that they play when the jackpot level is over \$500 million and 11% play when the jackpot reaches \$300 million.

In the Advertising Awareness category, 76% of the respondents stated that they have seen or heard lottery advertising in the past month, which was consistent with the 2013 survey. Television remained the highest level advertising medium. A significantly greater percentage in 2014 mentioned billboard advertising (53%) compared to 2013 (46%).

When respondents were asked about specific game recall, 76% reported that they had seen or heard advertising for Powerball, 73% had seen or heard advertising for Mega Millions, and 65% had seen or heard advertising for scratch off tickets. Advertising recall was lowest (16%) for the Cash 3 and Cash 4 games.

When asked about Winner Awareness, 44% either strongly agreed or agreed that they had heard about lottery winners in 2014. This was a significant decrease compared to 2013 (55%). Beneficiary awareness remained consistent with 2013 results: 94% of respondents were aware that the money was used for college scholarships, up slightly from 91% in 2013. 65% of those responding to the survey either strongly agreed or agreed that the lottery was a good way for the state to support students.

Reports from ALC Committees

Vendor Committee: Commissioner Scott reported that the Vendor Committee met on March 19 and a motion was passed, seconded, and unanimously approved to move consideration of

monitor games out of the committee, to be presented to the full commission on the meeting of April 16. Commissioner Streett reminded the Commission that the Arkansas Lottery Legislative Oversight Committee had met on April 15, and he said the outcome of that meeting [i.e., the LOC voted to express its opposition to monitor games] warranted further discussion. Director Woosley gave a recap of the LOC meeting in which he presented monitor games. He explained that some LOC members were opposed outright, while others wanted to introduce monitor games gradually. Some legislators questioned the constitutionality of the games. He received feedback before and after the LOC meeting, both from those who were in support of the monitor games – and also from those who were not in support of the new games. During that meeting, there was a non-support motion by Senator Hickey, seconded by Senator Burnett and the voice vote was passed. The LOC made it clear that they had review authority and they could not tell the Commission what to do and what not to do. Commissioner Pierce asked former Speaker of the House Robbie Wills to once again clarify to the Commission the intention of the Legislature when it drafted the Arkansas Scholarship Lottery Act. Mr. Wills said he was speaking in the capacity as a sponsor of the original Act. He said that he could tell the Commission that the original intention was to give the ALC the same sort of authority any other lottery commission in the United States has, with only one exception, and that exception was VLT, or slot machines. That limitation was at the request of other interests, and the legislature at that time accommodated that request. Commissioner Engstrom asked if anyone knew how, if monitor games were approved, it would affect the ALC vendor contracts. Director Woosley responded that it didn't have to affect any of the contracts. He said the only issue was that ALC currently did not have monitors. He added that in the Intralot renewal offer, there is an offer to give ALC a certain number of monitors that have a certain value. He said there were two ways to approach [acquiring monitors]: The Commission could take up the renewal offer as soon as it saw fit, to determine whether or not ALC could get the monitors, or, if the Commission was somewhat reluctant to take the renewal offer up right now, it could charge the Director with the authority to try to negotiate for some monitors, based on a launch that the Lottery may do in the fall. In other words, if ALC was going to launch 200 monitor retailers, ALC could conceivably negotiate 200 monitors in order to get it up and running. He said it could be as simple as the Commission approving monitor games and giving him the authority to go out and buy 200 monitors. He said that approval of monitors did not have to affect the contract, but he reminded the Commission that there was an existing offer [from Intralot] that states [Intralot] will give ALC monitors and [Intralot] will reduce the rate based on the fact that [ALC] may play monitor games. Commissioner Engstrom asked if that meant ALC could move ahead on the monitor games without preemptively having to accept [Intralot's] current offer, and Director Woosley responded in the affirmative. Commissioner Baldrige asked if there had been ongoing negotiations regarding the current offer, or if Director Woosley needed permission from the Commission to negotiate. Director Woosley replied that he would prefer to receive permission from the Commission to negotiate the offer. Commissioner Baldrige suggested that one of the Commissioners, acting on behalf of the full Commission, partner with the Director throughout the negotiations so that the negotiations could move forward promptly. **Commissioner Streett made a motion that Commissioner Engstrom partner with Director Woosley to negotiate with Intralot. Commissioner Baldrige seconded the motion, and the motion passed unanimously.**

Commissioner Scott made a motion for the ALC to pursue monitor games for the Arkansas Scholarship Lottery. Commissioner Pierce seconded the motion. Commissioners Campbell, Baldrige, Engstrom, Frazier, and Streett approved the motion, and Commissioner Lamberth opposed the motion. The motion passed by a vote of seven to one.

Commissioner Scott said that during the Vendor Committee meeting held at 9:00 a.m. this date, the committee had voted in favor of moving discussion of a Performance Audit out of the Vendor Committee so that it could be considered by the full Commission. Commissioner Scott added that, for clarification, the Commission would want the staff, working with Internal Audit, to develop criteria for the RFP/RFQ that would be developed, and ALC would decide what it wanted to do based on the criteria and the expense involved. Commissioner Baldrige asked if the Commission was going to put a timetable in the motion. **Commissioner Engstrom made a motion that the Commission approve going ahead with the Performance Audit with the understanding that the RFP/RFQ would be developed based on the criteria established, a time table would then be set, and the Commission would approve it and move forward at that time. Commissioner Baldrige seconded the motion, and it passed unanimously.**

Higher Education Committee: Commissioner Frazier reported that the Higher Education Committee met at 9:30 a.m. this date. During that meeting, the Higher Education Committee approved the motion to remove the restriction against in-state advertising with Arkansas colleges and universities, and to present the motion to the full Commission for consideration. Commissioner **Frazier made a motion to remove the restriction against instate advertising with Arkansas colleges and universities, and Commissioner Scott seconded the motion. The motion passed unanimously.**

Audit and Legal Committee: Commissioner Campbell reported that the committee would meet April 22 to consider a supplementary advertising RFP/RFQ.

Personnel Committee: Nothing to report.

Retail and Marketing Committee: Nothing to report.

Other Business

Commissioner Baldrige proposed a hiring freeze for a short period of time, perhaps waiting until more information had been gathered about individual positions. Commissioner Engstrom asked if there were any critical openings at this time. Director Woosley stated there were two critical MSR positions that needed to be filled. Commissioner Lamberth asked if there was any reason not to bring the subject of hiring freezes to the Personnel Committee. Commissioner Engstrom asked Director Woosley if it was possible for him to verbally agree to a hiring freeze without bringing it to the Personnel Committee. Director Woosley stated that he understood that any Director position would have to come before the Commission simply because of the salary cap. Commissioner Engstrom restated that what he was trying to accomplish was to have him agree to hold back in adding personnel, while allowing a way for the Director to hire

in an emergency, without having to wait for a full commission meeting. Director Woosley responded that he would ask permission to hire two MSRs. Commissioner Engstrom said that he would not mind delegating that authority to the Personnel Committee, that is, to give permission, to which Commissioner Lamberth responded that the subject would have to be brought before the entire committee. She added that they could accomplish it by conference call.

Meeting Date

The next commission meeting was set for 10:00 a.m. on Wednesday, May 21, 2014.

There being no further business, the meeting was adjourned.