

MINUTES

ARKANSAS LOTTERY COMMISSION

Monday, April 29, 2013

10:00 a.m.

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

Call to Order

Chairman Ben Pickard called the meeting to order. Commissioners Smokey Campbell, Bruce Engstrom, Steve Faris, Raymond Frazier, Dianne Lamberth, Mike Malone and Patty Shipp were also present. Staff members present included Director Bishop Woosley, Internal Auditor Matt Brown, and Chief Legal Counsel Jean Block, as well as Julie Baldrige, Patti Vick, Maria Craig, Jerry Fetzer, Robert Stebbins, Valerie Basham, Lance Huey, and Terry Williams. Chairman Pickard welcomed and recognized Mark Scott, newly appointed commissioner, and thanked him for coming. He then recognized Commissioners Shipp and Malone and thanked them for serving on the commission, adding that it was a pleasure working with them.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on March 18, 2013. Commissioner Engstrom made a motion to approve, seconded by Commissioner Campbell, and the minutes were approved unanimously.

Report from the Higher Education Committee

Commissioner Frazier, chairman of the Higher Education committee, reported on the meeting held on April 10. The committee had been tasked to develop an educational program supported by vendor grants to benefit Arkansas students. It was stated that Intralot had agreed to provide \$20,000 for the program; Scientific Games had been reluctant to commit funds until more details regarding the program were provided. After discussion, the committee agreed that ALC should not be an active participant in the program, i.e., should not be grantor of any award, nor have a decision-making role in the awarding of same. It was suggested that the Department of Higher Education might have a vehicle through which vendor funds could be funneled. The committee had tasked Commissioner Frazier and Director Woosley to meet with ADHE Director Shane Broadway; Commissioner Frazier asked Director Woosley to give a report of the outcome of that meeting. Director Woosley said that Mr. Broadway had suggested that ALC utilize the Upward Bound program, which has actual staff on site at some 20+ campuses throughout the state. Upward Bound uses the money to prepare students who are remedial and in need of help in preparing for success in college. The parting thought was that the vendors could give the money to the Upward Bound program on ALC's behalf.

Commissioner Pickard stated that he thought the providing of funds to the Upward Bound program was a wonderful idea and he thanked Intralot for already agreeing to contribute \$20,000. He called on Scientific Games to match Intralot's amount, increasing the contribution

to \$40,000, money that would be used for student remediation and for technology assistance to schools in need.

Commissioner Frazier made a motion that Chairman Pickard and Director Woosley be given the authority to seek monies from vendors Intralot and Scientific Games and that any monies presented would be applied toward the Upward Bound program on behalf of the Arkansas Lottery Commission. Commissioner Shipp seconded the motion, which passed without dissent.

Report from the Personnel Committee

Chairman Pickard called on Commissioner Shipp, Chair of the Personnel Committee, to report on the brief meeting held at 9:45 a.m. on April 29. Commissioner Shipp stated that Director Woosley had informed the committee of legislation passed during the last session which provided for a cost of living allowance (COLA) for Fiscal year 2014 to state employees, contingent upon a formal letter from the Governor stating that the funds would be available. She stated that the committee had voted on the motion that, should the Governor release the monies necessary to fund the COLA, the ALC would follow the standard guidelines set by the Governor and DFA regarding the distribution of COLA to state employees, and that the motion passed unanimously. She added that no further action by the committee or the commission was required.

Report from the Internal Auditor

Internal Auditor Brown presented his monthly internal audit update (included in file). He brought forward a proposed change to the FY 2013 Audit Plan, stating that normally he would have presented it to the Audit and Legal Committee, but because it was a relatively simple and straight-forward change and after discussion with the Audit and Legal Chair, he was bringing it to the full commission. The request was to change Project No. 15, Financial Accounting & Reporting (controls and procedures surrounding the accounting and reporting process, including development of the internal and external financial statements, related notes to the statements, and other items/schedules included in the CAFR). The proposed change was to separate the objectives scheduled in the audit into two audits: one audit would cover Accounting Close and Reporting and the other would address Financial Accounting and the CAFR. Commissioner Engstrom made a motion to accept the change, which was seconded by Commissioner Lamberth and the motion passed unanimously.

Mr. Brown then called attention to his report (page 5 of the enclosed internal audit update) on the Back Office System (BOS) Administration audit that covered transactions from July 1, 2012 through January 15, 2013. The audit centered on the processes and controls in place regarding access to ALC's BOS. The audit consisted of two categories: (1) the maintaining of documentation and (2) maintaining proper access to BOS. The audit revealed several areas of concern. To summarize, the report addressed: (1) the lack of written documentation outlining BOS users' request for access; (2) lack of documentation specifying access levels for BOS users; (3) lack of written documentation outlining updates to BOS users' requests for new or updated access; (4) lack of detailed written documentation when users are deleted or inactivated; and (5) user access lists were not retained in conjunction with Security's monthly BOS user review.

ALC management responded to each issue, stating that changes were being implemented to address the concerns. Mr. Brown noted that follow-up audit procedures would be required in order for internal audit to consider the observations cleared.

Report from the Director

Director Woosley presented a report on sales, ADHE transfers, and the new Fast Play game, Arkansas Progressive Jackpot (included in file) He began by noting that, in looking at the comparative March 2012/March 2013 sales, the lower March 2013 amounts were misleading, due to the Mega Millions jackpot run of March 2012. However, he stated, even without the jackpot, March 2013 was a healthy month, at least from an instant ticket standpoint. In October 2012, changes were made to instant ticket planning and those changes were beginning to appear. Instant tickets year to date were down \$31 Million, but the majority of that lesser amount occurred during the first five or six months of the fiscal year, when the lottery hit a slow period. He reported that net proceeds were down about \$10 Million, but that amount did not include \$3.7 Million in unclaimed prizes that will be applied to net proceeds at the end of the fiscal year; the lottery is actually down about \$6.4 Million from what was anticipated. He stated that it was possible that the lottery would be able to gain some ground by runs on Powerball and Mega Millions. He added that Powerball has been very good for the lottery this year, but that Mega Millions has not; the consortium heading Mega Millions realizes that changes may need to be made.

Mr. Woosley gave a legislative update. He said the 89th General Assembly was a fairly routine session. He stated that the 25% bill, ALC's biggest concern, ran late on a Friday afternoon in the Rules Committee and did not pass. To date, it has not been decided to what committee the bill would be referred. Mr. Woosley added that he hoped that the lottery could drive up the percentage so that it would not continue to be an issue.

Arkansas Products

Commissioner Engstrom asked Director Woosley for a report regarding awarding of secondary prizes of Arkansas products. Mr. Woosley said that the very successful February promotion was a Bad Boy Mower give away, and that the lottery is constantly on the look-out for Arkansas goods and products and will continue to do so.

Advertising Venues

Commissioner Malone commented that in attending college sporting events in other states, he noticed lottery advertising, and he wondered aloud whether the decision the ALC made at the start-up of the lottery to not advertise on any college or university was still relevant, or whether that decision should be revisited. He added that even South Carolina was advertising on campus, albeit on a limited basis. Commissioner Engstrom stated that he was intrigued, but that he would want to make sure advertising was not directed at those under the age of 18.

Commissioner Faris asked that Commissioner Malone's question regarding advertising be sent to the proper subcommittee to be discussed and have that subcommittee report back to the full commission.

Meeting Date

Chairman Pickard set Monday, May 20, at 10:00, as the next ALC meeting. Part of that meeting will be the election of officers and he asked that everyone begin thinking about committee assignments for the coming year.

Julie Baldrige Retirement

Chairman Pickard thanked Julie Baldrige, who was preparing to retire on April 30, for her service to the Lottery, and read aloud letters from him and from Governor Beebe. He also presented to her a scrapbook of the startup of the lottery.

There being no further business, the meeting was adjourned.