

## MINUTES

### **ARKANSAS LOTTERY COMMISSION**

**Wednesday, March 19, 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, 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.

#### **New Commissioner**

Chairman Hammons welcomed Alex Streett, ALC's newest commissioner. Commissioner Streett is the senior partner at the Streett Law Firm, P.A., in Russellville. He replaces Commissioner Ben Pickard, who resigned from the commission in January when he was appointed to the Arkansas Higher Education Coordinating Board.

#### **Approval of Minutes**

The first order of business was the approval of the minutes of the meeting held on March 19, 2014. Commissioner Pierce noted that a few changes needed to be made to page 4, adding that the information he had provided was not precise. He said that he would e-mail the changes to Ms. Vick. Commissioner Campbell made a motion to accept the minutes as corrected and Commissioner Lamberth seconded the motion, and the minutes, as corrected, were unanimously approved.

#### **Report from the Internal Auditor**

Internal Auditor Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that there was an audit kick-off meeting on February 26 for Project No. 29, an audit of Payroll & Leave, with fieldwork scheduled to begin March 20. There was also an audit kick-off meeting held on March 12 for Project No. 7, an audit for Instant and Online Ticket Game Development. Fieldwork for that audit was expected to begin in early April.

Mr. Brown said that Project No. 8, an audit of Points for Prizes and Play It Again, was complete and a report was issued on March 4. An observation was made that there was no current SOC 2 or equivalent audit of MDI, which is a subsidiary of Scientific Games International (SGI) under contract with the ALC. The SOC 2 audit would focus on activities and operations undertaken to administer portions of the ALC's player loyalty programs. ALC management has requested that MDI undergo a SOC 2 audit and MDI/SGI has agreed to such audit at their expense. Internal Audit recommended that ALC management actively pursue and encourage current audit efforts

and that future audits also address Availability, Processing Integrity, and Privacy Trust Services Principles, and that this audit requirement be incorporated into any future extension or replacement of ALC contracts for player loyalty program services. ALC management agreed with the Internal Audit recommendation that the ALC should make this audit a requirement in either the extension or replacement of the vendor contract that governs the player loyalty programs that are set to expire in August of 2016, and that such audit requirements incorporated into the applicable vendor contract should specifically state which AICPA Trust Service Principles need to be covered. Additional follow-up will be necessary in order to consider the observation cleared.

Mr. Brown stated that Project No. 46, Instant Ticket Vendor Security Review, was scheduled to take place on March 3. This project was a coordinated (with an outside firm) security review of instant ticket vendor SGI. Internal Audit is expecting to receive a report and analyze the results no later than June 15.

### **Report from the Director**

Director Woosley was recognized to give his report (in file). Mr. Woosley said he wanted to begin his report with good news and announced that Miranda Huffman of Lepanto came into the Little Rock claim center on March 18 to claim a \$3 million Mega Millions prize. He added that it was the second-largest prize in ASL history. The winning ticket was sold by Jordan's Kwik Stop in Lepanto. The store's representatives, who were in attendance, were presented with a large check which represented the 1% selling bonus of \$30,000. He stated that the most recent Mega Millions jackpot run of \$400 Million ended with the draw of March 18, which produced two grand prize winners, one each in Florida and Maryland. That run, from January 4 to March 18, generated almost \$4.7 million in Arkansas Mega Millions ticket sales.

He said that the current highest-ever Natural State Jackpot of \$295,000 was also good news. He added that management was very pleased with the success of the game, which has had several jackpots of over \$200,000. Sales for the game's current jackpot run, which began on January 15, were \$1.3 million to date.

He reported that in February the Arkansas Scholarship Lottery had reached the \$2 billion mark in sales. He added that over \$1.26 billion in prizes had been awarded and, more importantly, the lottery had earned over \$413 million in net proceeds.

Director Woosley then reported on the Comparative Income Statements. He reported that instant ticket sales in February 2014 were down about \$5.4 million compared to February 2013, a trend that has been ongoing the last 12 to 18 months. He said that the last four instant ticket launches had been adversely affected by the recent bad winter weather, but that instant ticket sales were starting to level out. Online tickets for February 2014 were up approximately \$2.5 million compared to February 2013, an increase he attributed to large online game jackpots. Although the February 2014 Income Before Transfers amount was larger than in February 2013, a \$2 Million instant ticket prize claimed in February 2014 reduced net proceeds to \$5.9 Million, or about \$537,000 less than February 2013 net proceeds.

In reviewing the Year-to-Date comparison, Director Woosley noted that instant ticket sales were down \$20 million, but that online ticket sales were up by \$10 Million. Net proceeds were down \$5.2 Million compared to year-to-date February 2013. The ADHE Transfer Analysis reflected that transfers to ADHE were down a total of \$5.7 million for the year, but Director Woosley stated that if current trends continued, [ALC] would meet the projected budget. He added that weekly ticket sales were on the upswing, that management typically preferred to see sales at or over \$1 Million per day, and that as of the week of February 16 that appeared to be happening.

Director Woosley showed a Powerball Sales Year to Date Slide, which illustrated that only three states had a gain in Powerball sales year to date. Arkansas's Powerball sales were in the middle of the pack, with a -9.90% change for the year. He said he would be going to a MUSL meeting in Arizona next week, where there would be discussion of a possible Powerball matrix change. He added that from a staffing standpoint, these changes could be frustrating, because every time there was a change to Powerball, all play slips had to be pulled and retailers and players had to be reeducated. Director Woosley also showed a slide on Mega Millions jackpot trends. The slide illustrated that in comparing jackpot runs in 2012 to 2013 and 2014, sales for the more recent jackpots were noticeably lower.

Director Woosley reported that the new Lucky for Life game, which would replace the current Decades of Dollars game, was close to coming to fruition. He said that the game should have more Arkansas winners [than Decades of Dollars]. The top prize will be \$2000 a day for life and the second prize is \$25,000 per year for life.

Next, Director Woosley updated the commission on the status of the lottery ticket theft recovery. He reported that ALC had received \$247,500 from Arkansas Fidelity Bond Trust Fund and National Union (Crime Policy) had recently agreed to pay ALC \$213,546.98 for its loss from cashed tickets. The total amount to the settlement of losses was \$461,046.98, an amount that came close to making ALC whole from the loss. The amount of \$13,526.02 was deducted from National Union's payment, which reflected unused leave by the employee and funds that ALC contributed toward Arkansas Public Employee Retirement (APERS); he said that ALC Legal was currently working to capture those funds.

Director Woosley presented a "Wish List" slide, which he had been asked to provide to the Commission during the February 2014 ALC meeting. Commissioner Engstrom requested that item number 8 of the "wish list," *Immediate consideration of contract renewal proposals from instant and online vendors*, be sent to the Vendor Committee. After much discussion, Chairman Hammons suggested that, over time, the Director should recommend individual items on the wish list to specific committees. Chairman Hammons added that, as a full commission, there should be no real discussion of committee assignments at this point. Commissioner Engstrom asked if that meant the Director could choose which committees would receive the wish list items. Commissioner Engstrom stated that it would be in the commission's best interest to retain control over assignment of issues. Chairman Hammons then asked Director Woosley to

submit recommendations to the commission and the commission would decide which committee would receive it. Commissioner Lamberth noted that the Audit and Legal Committee had the same members as the Vendor Committee. Director Woosley requested that there be a joint Vendor and Audit/Legal Committee meeting for the contract issues that the commission wanted to go through item by item and section by section because the process was lengthy and intensive. He also requested that the commission consider meeting every other month because the staff was currently working on the following: Performance Audit; the instant contract, line by line; the online contract, section by section; the advertising contract, section by section and possibly developing an RFP for same; a review of the claim center contracts and determining solutions for same; development of an employee survey related to staffing structure; Legislative Audit, who would be returning in a few months to conduct their annual audit ; preparations for end of fiscal year 2014; a possible Powerball matrix change; start of the Lucky for Life game; preparations for ALC's five-year anniversary; employee evaluations; contract reviews by Internal Audit; the national game review meeting; significant IT structural replacement of computers and servers; OrderPads; an advertising tracking study; retailer research study; and focusing on sales. He asked that the Commission not view the request as a complaint, but that with meetings every month, two weeks of every month were dedicated to commission meetings and two weeks of every month were devoted to other work. Chairman Hammons indicated that discussion of meeting every other month would be addressed at the next ALC meeting, after commissioners had taken some time to consider the request.

### **Reports from ALC Committees**

**Audit and Legal Committee:** Nothing to report.

**Higher Education Committee:** Commissioner Frazier announced that the Higher Education Committee would meet at 9:30 a.m. on the day of the next commission meeting to discuss advertising with colleges and universities.

**Personnel Committee:** The scheduled personnel committee meeting (after ALC meeting) was cancelled.

**Retail and Marketing Committee:** Commissioner Pierce reported that all members were present. He stated that he had a motion to present to the commission but that he wanted to note for the record that all committee members who were present, as well those who were present ad hoc, desired to pursue the motion very slowly and thoughtfully, and they recognized ALC's retailers as valued partners. He stated that ALC did not want to do anything to harm the retailers and the ultimate goal was to try and find middle ground and to reach a solution that worked for ALC and for the retailers. Noting that the motion he was presenting had passed unanimously in committee, Commissioner Pierce made the following motion:

On behalf of the members of the Retail and Marketing Committee, I make a motion to empower the ALC Director to pursue the use of debit cards for purchasing lottery tickets.

Commissioner Scott seconded the motion and the motion passed without dissent.

Commissioner Scott asked that Director Woosley clarify what the next steps would be regarding debit cards. Director Woosley said the next step would probably be to send the request to the LOC and at some point, probably around October, the LOC would start mulling the legislative agenda. Director Woosley asked Patrick Ralston, Legislative Analyst for the LOC, if this was correct and Mr. Ralston confirmed that legislative working groups started around October. Director Woosley added that the Commission would meet with the LOC as the LOC saw fit, and that ALC would continue to meet with retailer groups to try and build consensus before the next legislative session. Commissioner Lamberth commented that the vote was to clarify that “debit” meant “cash” and to try to get that change through the legislature. She advised that the vote did not mean that once the legislative change was made, the commission would automatically accept the use of debit cards. The commission would have to revisit and discuss the debit card issue at that time.

**Vendor Committee:** Commissioner Scott reported that the Vendor Committee met at 9:00 this date and passed a motion that Director Woosley and his staff provide to the committee criteria that would be considered in the ALC request to Legislative Audit to produce (or have produced) a Performance Audit RFP. Also included in the motion was for staff to provide to the committee a list of eight to ten lotteries comparable to Arkansas. Commissioner Scott said that the committee would be meeting in two or three weeks, or some time before the next full commission meeting. Commissioner Scott said that the committee had recessed just prior to the full commission meeting and would meet again immediately following the Commission meeting to discuss monitor games.

### **Other Business**

Chairman Hammons recognized Director Woosley, who reminded the commission that there had been a request that ALC’s instant ticket vendor give the commission an update of instant ticket sales. Director Woosley introduced Mr. Toben Molica and Martha Hernandez of Scientific Games International. Mr. Molica gave a PowerPoint presentation (in file). Mr. Molica stated that ALC had the most successful start-up of any lottery on record, and the consequences of that were precisely why ALC was in the current situation of lower ticket sales. The first graph he showed compared Arkansas to the four most recent lottery start-ups: Tennessee, South Carolina, North Carolina, and Oklahoma. He pointed out that the Arkansas Scholarship Lottery began its decline from the very beginning. He said that ALC had introduced its first \$10 game fairly early on, followed by its first \$20 game in the Spring of 2010. He said that Tennessee didn’t launch a \$20 ticket until year four. Mr. Molica said that ALC had put all of its bullets out immediately and did not save anything for sustained growth. He advised that a lottery would normally want to grow slowly and steadily, and that the other lotteries had different strategies in introducing higher price point tickets. He said that some of the decisions made early on by

ALC were not in the best interest of Arkansas. He said that in the instant ticket business, change didn't happen fast, and that change could take months and months. He advised that ALC now needed to behave like a more mature lottery. He said that questions should be asked, for example, how quickly are packs activated? He said that there were a much lower number of new packs being activated in Arkansas, and that the goal was to get the game packs activated. He stated that there were recent discussions of allowing partial returns for slow selling games. That would allow the retailers to empty their bins of slower selling games, replacing them with the new games. He also suggested possibly reducing the number of \$20 games, adding that four \$20 games were too many and that they should be considered spotlight games which appealed to a smaller segment of players. Commissioner Campbell asked if all state lotteries carried as many games as Arkansas. Mr. Molica responded that the average was 24 to 30 and that ASL was about average. He said that the Massachusetts lottery launched maybe 20 games a year, but they had 70-80 different games available for sale and that their games tended to last for years. Commissioner Campbell commented that when he visited lottery retailers, the displays looked too busy and surmised that maybe the retailers were selling too many. Mr. Molica said that it could certainly be a possibility and was worth reviewing. He said that a retailer focus group could provide a good deal of information regarding issues and concerns retailers had at the sales level. He added that ALC currently has the right number of games for best practices and that changing the dynamics of product mix could in fact be detrimental. Mr. Molica said that prize structures were an ongoing issue for players but that, in fact, it wasn't that players weren't winning as much, but that players weren't playing as much. He said that instant tickets were usually impulse purchases, and that if players didn't see the tickets, they wouldn't buy the tickets. He suggested reviewing the Players Club and perhaps consider re-launching the program. The last slide he presented was of a table of U.S. lottery ad budgets as percentage of sales. He advised that businesses needed to invest in their own success, that is, invest in advertising and promotions. He noted that Arkansas's ad budget was 1% of sales and that perhaps it should consider investing more money in the advertising budget. Commissioner Scott commented that the effectiveness of ASL advertising was just as important as the money spent.

#### **Meeting Date**

The next commission meeting was set for 10:00 a.m. on Wednesday, April 16, 2014.

There being no further business, the meeting was adjourned.



MITCHELL COMMUNICATIONS GROUP presents:

## Talent Management BEST PRACTICES





- 
- 80%
  - Nearly 39%
  - Log more hours and are slightly more engaged
  - Outperform groups that are co-located





# CHALLENGES TO WORKING REMOTELY

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- Cannot “manage by walking around”
- Fear of wasting time
- Collaboration and communication



# THE PERFORMANCE CYCLE



# PLAN AHEAD

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- Aligned to organization's goals
- Measures of success
- RASCI or RAG
- Behavior and results



# GIVE ONGOING FEEDBACK



- Two-way communication
- Regular meetings
- Mid-year review
- Opportunity to change



# GATHER INSIGHTS AND OBSERVATIONS



- Self-review
  - Statements of key results and greatest accomplishments



# EVALUATE PERFORMANCE

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- Others' input
- KSA's that focus on behavior
  - Technical, leadership and interpersonal

# DELIVER PERFORMANCE REVIEW

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- No surprises
- Include development focus





## NEXT STEPS

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### Short term:

- Goal development/clear expectations
- Consistent communication/ frequent touch bases
- Self-evaluation

### Long term:

- KPIs identified
- Accountability



**Arkansas Lottery Commission  
Monthly Internal Audit Update  
April 16, 2014**

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**Arkansas Lottery Commission**  
**FY 2014 Internal Audit Plan Status Report**  
**April 16, 2014**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
1	Audit	Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).	Scheduled		150
7	Audit	Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.	In Progress	<b>Status Update:</b> Fieldwork began the week of April 7, 2014 and is ongoing.	80
9	Audit	IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.	Complete	<b>Status Update:</b> Report issued April 3, 2014. No observations or recommendations were included in the report.	-
17	Audit	Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	Planning Stage	<b>Status Update:</b> Audit kick-off meeting is set for week of April 28, 2014.	86
29	Audit	Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	In Progress	<b>Status Update:</b> Fieldwork began the week of March 17, 2014 and is ongoing.	30
38	Audit	IT General Controls	General IT/Computer-related controls that apply to all system components, processes, and data. ITGCs include logical and physical data center access, system development, change management, backup and recovery, and computer operation controls.	Scheduled		160
40A	Audit	Transparency Reporting & Compliance	Controls and procedures surrounding required reporting of information and compliance with requirements under Act 303 of 2011, that created the transparency.arkansas.gov website.	Planning Stage	<b>Status Update:</b> Audit kick-off meeting is set for week of April 28, 2014.	81
43	Consulting Project	Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA.	See Status Update	<b>Status Update:</b> ALC Management, with the consent of the Department of Finance & Administration - Office of Accounting - Internal Audit Section, elected to defer the risk assessment process until December 2014. The ALC is not required to submit risk assessment documentation to this Office / Section by law, but the ALC has in the past voluntarily agreed to do so, and intends to do so in the future.  Internal Audit will formally request Audit & Legal Committee approval to defer this project to the FY 2015 Audit Plan, based on this new timeline at the next meeting of that committee, scheduled for April 22, 2014.	-
46	Consulting Project	Instant Ticket Vendor Security Review (Annually)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.	In Progress	<b>Status Update:</b> Review procedures are scheduled to take place the week of March 3, 2014. Internal Audit expects to receive a report and analyze the results no later than June 15, 2014.	24

**Total Estimated Hours to Complete FY 2014 Plan (Excluding Follow-Up)**

611

**Arkansas Lottery Commission**  
**FY 2014 Internal Audit Plan Status Report**  
**April 16, 2014**

**Follow-Up Audit Projects Resulting from Previous Audits<sup>4</sup>**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
14F2	Audit Follow-Up	Back Office System (BOS) Administration Follow-Up Procedures	Additional follow-up procedures regarding observations from FY 2014 initial follow-up procedures.	Open	<b>Status Update:</b> Expected to be performed in May and June 2014.	40
19F	Audit Follow-Up	Human Resources Processes Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	<b>Status Update:</b> Expected to be performed in May and June 2014.	45
23F	Audit Follow-Up	Claim Center Operations Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Complete	<b>Status Update:</b> Report issued April 3, 2014. See Page 4 for additional information.	-
30F	Audit Follow-Up	Federal & State Tax Withholding & Reporting Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	<b>Status Update:</b> Timing unknown at this time.	75
47F	Audit Follow-Up	Instant Ticket Reconstructions Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	<b>Status Update:</b> Timing unknown at this time.	40
36AF	Audit Follow-Up	Financial Accounting & CAFR	Follow-up procedures regarding observations from FY 2013 audit.	Open	<b>Status Update:</b> Earliest timing will be after production of the FY 2014 CAFR. No time included in estimate since this cannot be completed until FY 2015.	-
<b>Total Estimated Hours to Complete FY 2014 Plan (Including Follow-Up)</b>						<b>811</b>

**Supplemental Projects Approved by the Audit & Legal Committee<sup>5</sup>**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
11	Review	Instant Ticket Quality	Review of independent quality control reports for instant tickets.	Open		18
33	Audit	Travel Reimbursements	Controls and procedures surrounding travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	Open		160
32	Audit	Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	Open		70
18	Audit	Background Checks	Controls and procedures surrounding the background check process.	Open		120
27	Audit	Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	Open		160

**Notes**

<sup>1</sup>Project Number based on number of all projects within the project universe. "F" indicates follow-up procedures. Follow-up procedures for audits in a given fiscal year may be incorporated into the following fiscal year's audit plan depending on several factors, including the timing of any Management remediation activities and available Internal Audit resources. See Page 5 for complete, numbered project universe.

<sup>2</sup>Definition of Project Status: Open - Project has not yet been scheduled; Scheduled - Project has been scheduled and is included in the Internal Audit master schedule. Project timing subject to change based on a number of factors including business need, internal audit resources, etc.; Planning Stage - Project planning beyond scheduling has begun. Actual fieldwork may be several weeks away and finalization of all phases of the project may be several months away; In Progress - Fieldwork is underway. Project completion and finalization may still be several weeks away; Complete - Project is complete for the fiscal year unless otherwise noted (i.e. partially complete, substantially complete).

<sup>3</sup>Estimated hours to complete based on current knowledge of expected scope and complexity of the project. Actual hours needed to complete a project are subject to change based on the overall complexity of the project (including the nature and volume of any audit findings), the timing of the project, the availability of Internal Audit resources, and the discretion of the Internal Auditor and/or Audit & Legal Committee.

<sup>4</sup>Follow-Up Projects result from planned audits where items or issues were identified and Internal Audit must perform additional audit procedures to affirm their resolution.

<sup>5</sup>On December 2, 2013, the Audit & Legal Committee approved a list of supplemental audit projects for completion during FY 2014, should all planned projects be completed ahead of schedule. These projects should generally be prioritized for completion after any follow-up projects.

**Arkansas Lottery Commission  
Claim Center Operations Follow-Up Audit  
FY 2014  
April 16, 2014**

General Information

- The follow-up audit centered on controls, procedures, and processes relative to maintenance of the ALC's Ineligible Players List, since maintenance of this list was the observation from the initial audit.
- Fieldwork included review of documentation and information generated through March 31, 2014.

Observation

- Inaccurate and inconsistent data remained in 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 the ALC's Operational Rules.
  - Management (Human Resources Division) has effectively implemented a process to capture ineligible player information relative to commissioners, which was a key portion of the observation from the initial audit.
  - Inaccuracies noted included invalid expiration dates for ineligible players (meaning the players were reflected as eligible on the list) and inclusion of former commissioners and others on the ineligible players list that are now eligible players.
  - The inaccuracies noted were immediately addressed and corrected by the Human Resources and Security Divisions.
  - Further, inconsistencies were noted in the treatment of minor children living in the household of ineligible players; some employees and commissioners have chosen to provide information for their inclusion as an ineligible player, while others have not.
  - Arkansas Code Annotated (ACA) § 23-115-103, § 23-115-403 (f) (1), § 23-115-402 (e) (1), and the ALC's Operational Rules contain information relevant to individuals that are eligible to claim a prize from the ALC.
  - In addition to ensuring ineligible player information remains accurate going forward, IA recommended that Management evaluate applicable law and operational rules to determine what steps need to be taken to develop a policy to address inclusion/exclusion of minor children, which might include specific consideration from members of the ALC regarding what such policy should be.
  - Management has responded stating that the Director will bring the issue before the Commission for official consideration of a policy, and that the Human Resources Division will update the ineligible players form so that it will reflect the language set forth in any new policy.
  - Additional follow-up is necessary in order to consider the observation cleared.

**Arkansas Lottery Commission**  
**Internal Audit Project Universe for FY 2014 - 2016 Audit Plan**

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
<b>Legal - Block</b>						
1 Online Games & Gaming System Contract Compliance			X			
2 Instant Ticket Lottery Game Services Contract Compliance	X					
3 Banking Contract Compliance				X		
4 Advertising Contract Compliance				X		
5 Record Retention				X		
6 Legal Compliance & Monitoring				X		
6A Major Procurement Contracts						X
<b>Gaming &amp; Product Development - Smith</b>						
7 Instant & Online Ticket Game Development			X			
8 Points for Prizes & Play It Again			X			
9 IT Gaming Operations			X		X	
10 IT Gaming Quality Assurance		X			X	
11 Instant Ticket Quality	X				X	X
<b>Security &amp; Licensing - Huey</b>						
12 Lottery Facilities Security & Controls				X		
13 In-State Draw Security & Controls			X			
14 Back Office System (BOS) Administration		X				X
15 Instant Ticket Warehouse Operations			X		X	
16 Licensing & Retailer Compliance	X					X
17 Security Investigations			X			
<b>Human Resources - Basham</b>						
18 Background Checks				X		
19 Human Resource Processes (Hiring, Benefits, Terminations, etc.)			X			
<b>Commission &amp; Legislative Affairs - TBD</b>						
20 Public & Legislative Relations				X		
<b>Sales - Stebbins</b>						
21 Sales Force Reporting				X		
<b>Marketing - Bunten</b>						
22 Advertising & Marketing (excl Contract Compliance)				X		

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
<b>Treasury - Fetzter/Parrish</b>						
23 Claim Center Operations	X		X		X	
24 Cash Receipts				X		
25 Retailer Sweeps/Commissions/Accts Receivable & Adjustments	X					X
26 Cash Management				X		
<b>Financial Control - Fetzter/Williams</b>						
27 Fixed Assets				X		
28 Accounts Payable/Purchasing/Expenditures		X				X
29 Payroll & Leave			X			
30 Federal & State Tax Withholding & Reporting			X			
31 Unclaimed Prize Fund				X		
32 Education Trust Fund	X	X				
33 Travel Reimbursements	X	X				X
34 Revenue/Prize Payments/Reserves - Online Games	X					X
35 Revenue/Prize Payments - Instant Ticket Games	X					X
36 Accounting Close & Reporting		X				X
36A Financial Accounting & CAFR		X				X
37 Financial Planning/Budgeting		X				X
<b>Information Technology - Fetzter/Gilmore/Smith</b>						
38 IT General Controls			X			
39 Disaster Recovery/Business Continuity			X			X
40 IT Help Desk & Desktop Support				X		
40A Transparency Reporting & Compliance			X			X
<b>Internal Operations - Fetzter/TBD</b>						
41 Lottery Vehicles				X		
42 Building & Facility Maintenance				X		
<b>Recurring Projects</b>						
43 Facilitation/Review of Risk Assessment required by DFA (Biennially)	X		X			X
44 Gaming System SSAE 16 SOC1 Review (Annually)	X	X	X	X	X	X
45 Financial Statements & CAFR Review (Annually)	X	X	X	X	X	X
46 Instant Ticket Vendor Security Review (Annually)		X	X	X	X	X
47 Instant Ticket Reconstructions (Annually)			X	X	X	X

# Arkansas



## Scholarship Lottery

**Report from the Director**  
**April 16, 2014**



**\$410,000**  
**Winner!!!!**

**Natural State**  
**JACKPOT**

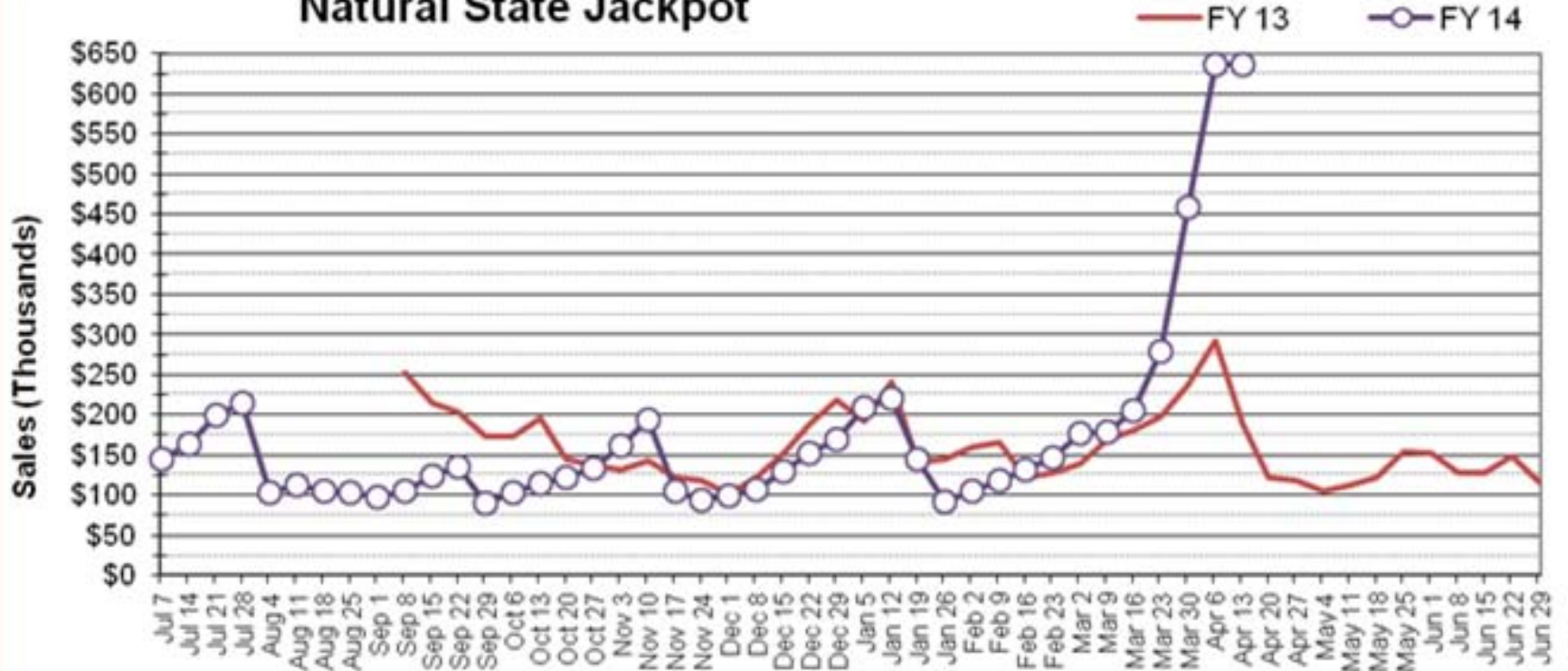
Curtis O'Hare of Lonoke purchased his ticket from Doublebee's Convenience Store on Bill Foster Memorial Highway in Cabot. He and his wife Brandi (both pictured, right) plan on saving and investing their winnings.



- **NSJ Run from January 15 to April 10, 2014**
- **Total Sales: \$3,159,489 (Net)**
- **Total Tickets Sold: 1,462,486 (Gross)**
- **Total Winners: 364,403 (Winning Tickets)**
- **Record NSJ Day: \$152,748, Tuesday, April 8**
- **Record NSJ Month: March, \$1,251,440 (April, \$1,180,649 through the 13<sup>th</sup>)**
- **NSJ 2013 Total Sales (full year): \$7,105,864**
- **NSJ 2014 Year to Date: \$7,049,478 (\$33,614 *above* 2013)**
- **NSJ Run Transfer: \$1,674,957**
- **\$1,000 Scholarships for Transfer: 1,674**
- **NSJ Sales from 1-1-2013 through 4-10-2013: \$2,501,333**
- **NSJ Sales from 1-1-2014 through 4-10-2014: \$3,602,930 (plus \$1,101,597 over same time 2013)**



# Natural State Jackpot



# \$1 Million Powerball Winner!!!!



The April 5, 2014, Powerball drawing didn't produce a grand prize winner, but Nancy Silvers of Berryville still won big. She matched the first five numbers drawn and won \$1 Million!

She purchased her winning ticket from Rapid Robert's #201 in Eureka Springs. She plans on paying off debts.

(That's Nancy and her husband William on the right.)



# \$1 Million Platinum Payout Winner!!!!



Pictured: James Osborn and his wife Cynthia

Mr. Osborn of Atkins won \$1 Million playing a \$20 *Platinum Payout* instant ticket, which he purchased from PDQ North in Russellville. He is going to save his winnings, applying it toward his retirement.



# Comparative Income Statements

## March 2014 and 2013

GAAP Basis Income Statement	<u>March 2014</u>	<u>March 2013</u>	<u>Favorable/ (Unfavorable)</u>	<u>Percentage Variance</u>
<b>Revenues</b>				
Instant Tickets	\$ 33,133,930	\$ 38,726,262	\$ (5,592,332)	-14.4%
Online Tickets	8,072,226	8,282,577	(210,351)	-2.5%
Retailer App/Fidelity	52,160	50,494	1,666	3.3%
<b>Total Revenues</b>	<b>41,258,316</b>	<b>47,059,333</b>	<b>(5,801,017)</b>	<b>-12.3%</b>
<b>Operating Expense</b>				
Instant Game Prizes	23,516,317	27,980,718	4,464,401	16.0%
On-Line Game Prizes	4,024,418	3,942,513	(81,905)	-2.1%
Retailer Commissions	2,339,636	2,637,908	298,272	11.3%
Gaming Contract Costs	2,101,903	2,324,415	222,512	9.6%
Advertising	410,949	398,053	(12,896)	-3.2%
General and Administrative	536,500	468,569	(67,931)	-14.5%
Other Agency Services	68,333	110,000	41,667	37.9%
<b>Total Operating Expenses</b>	<b>32,998,056</b>	<b>37,862,176</b>	<b>4,864,120</b>	<b>12.8%</b>
<b>Operating Income</b>	<b>8,260,260</b>	<b>9,197,157</b>	<b>(936,897)</b>	<b>-10.2%</b>
Interest Income	11,795	21,864	(10,069)	-46.1%
Other Income	213,547		213,547	100.0%
<b>Income Before Transfers</b>	<b>\$ 8,485,602</b>	<b>\$ 9,219,021</b>	<b>\$ (733,419)</b>	<b>-8.0%</b>
<b>Net Proceeds</b>	<b>\$ 7,324,233</b>	<b>\$ 9,775,273</b>	<b>\$ (2,451,040)</b>	<b>-25.1%</b>

Note – Net Proceeds does not include unclaimed prizes.

# Comparative Income Statements

## March 2014 Actual Versus Budget

GAAP Basis Income Statement	March 2014 Actual	March 2014 Revised Budget	Favorable/ (Unfavorable)	Percentage Variance
<b>Revenues</b>				
Instant Tickets	\$ 33,133,930	\$ 32,199,434	\$ 934,496	2.9%
Online Tickets	8,072,226	8,501,649	(429,423)	-5.1%
Retailer App/Fidelity	52,160	45,000	7,160	15.9%
<b>Total Revenues</b>	<b>41,258,316</b>	<b>40,746,083</b>	<b>512,233</b>	<b>1.3%</b>
<b>Operating Expense</b>				
Instant Game Prizes	23,516,317	22,591,165	(925,152)	-4.1%
On-Line Game Prizes	4,024,418	4,484,321	459,903	10.3%
Retailer Commissions	2,339,636	2,407,975	68,339	2.8%
Gaming Contract Costs	2,101,903	2,124,580	22,677	1.1%
Advertising	410,949	400,000	(10,949)	-2.7%
General and Administrative	536,500	643,738	107,238	16.7%
Other Agency Services	68,333	100,000	31,667	31.7%
<b>Total Operating Expenses</b>	<b>32,998,056</b>	<b>32,751,779</b>	<b>(246,277)</b>	<b>-0.8%</b>
<b>Operating Income</b>	<b>8,260,260</b>	<b>7,994,304</b>	<b>265,956</b>	<b>3.3%</b>
Interest Income	11,795	20,000	(8,205)	-41.0%
Other Income	213,547		213,547	100.0%
<b>Income Before Transfers</b>	<b>\$ 8,485,602</b>	<b>\$ 8,014,304</b>	<b>\$ 471,298</b>	<b>5.9%</b>
<b>Net Proceeds</b>	<b>\$ 7,324,233</b>	<b>\$ 7,719,395</b>	<b>\$ (395,162)</b>	<b>-5.1%</b>

Note – Net Proceeds does not include unclaimed prizes.

# Comparative Income Statements

## YTD March 31, 2014 Compared to March 31, 2013

GAAP Basis Income Statement	Actual YTD 3/31/14	Actual YTD 3/31/13	Favorable/ Unfavorable	Percentage Variance
<b>Revenues</b>				
Instant tickets	\$ 240,468,892	\$ 266,963,160	\$ (26,494,268)	-9.9%
Online Tickets	69,839,312	60,250,888	9,588,424	15.9%
Retailer App/Fidelity	432,439	427,335	5,104	1.2%
<b>Total Revenues</b>	<b>310,740,643</b>	<b>327,641,383</b>	<b>(16,900,740)</b>	<b>-5.2%</b>
<b>Operating Expense</b>				
Instant Game Prizes	170,831,304	187,516,909	16,685,605	8.9%
On-Line Game Prizes	36,577,825	29,347,849	(7,229,976)	-24.6%
Retailer Commissions	17,378,512	18,322,283	943,771	5.2%
Gaming Contract Costs	15,428,944	16,392,787	963,843	5.9%
Advertising	3,255,616	2,759,062	(496,554)	-18.0%
General and Administrative	5,246,947	5,201,020	(45,927)	-0.9%
Other Agency Services	754,077	1,128,880	374,803	33.2%
<b>Total Operating Expenses</b>	<b>249,473,225</b>	<b>260,668,790</b>	<b>11,195,565</b>	<b>4.3%</b>
<b>Operating Income</b>	<b>61,267,418</b>	<b>66,972,593</b>	<b>(5,705,175)</b>	<b>-8.5%</b>
Interest Income	195,911	249,505	(53,594)	-21.5%
Other Income	461,047		461,047	100.0%
<b>Income Before Transfers</b>	<b>\$ 61,924,376</b>	<b>\$ 67,222,098</b>	<b>\$ (5,297,722)</b>	<b>-7.9%</b>
<b>Net Proceeds</b>	<b>\$ 55,540,945</b>	<b>\$ 63,283,151</b>	<b>\$ (7,742,206)</b>	<b>-12.2%</b>

Note – Net Proceeds does not include unclaimed prizes.



# Arkansas Lottery Commission

## ADHE Transfer Analysis

Month	2014 Transfers	2014 Unclaimed Prizes	2014 Budget	Over/Under Budget	Cumulative Balance
July,2013	\$ 4,891,372	\$ 747,115	\$ 5,621,039	\$ 17,448	\$ 17,448
August	6,401,829	87,431	6,959,900	(470,640)	(453,192)
September	6,023,766	618,079	7,279,088	(637,243)	(1,090,435)
October	6,773,937	94,334	7,497,572	(629,301)	(1,719,736)
November	6,768,352	257,183	7,629,131	(603,596)	(2,323,332)
December	5,831,219	672,632	8,025,502	(1,521,651)	(3,844,983)
January, 2014	5,616,281	1,175,002	7,209,769	(418,486)	(4,263,469)
February	5,909,956	122,302	7,534,121*	(1,501,863)	(5,765,332)
March	7,324,233	642,144	8,014,304*	(47,927)	(5,813,259)
April					
May					
June					
<b>Totals</b>	<b>\$ 55,540,945</b>	<b>\$ 4,416,222</b>	<b>\$ 65,770,426</b>		

\* Revised Budget

# Promotions - Coupons

April/May coupon sent to 261,347 members of the players club

May/June shared mail coupon will be sent to 1,036,403 households

**Arkansas**  
Scholarship Lottery  
124 West Capital Ave., Ste. 1400, Little Rock, AR 72201

**DOUBLE YOUR LOTTERY**

QUEEN OF DIAMONDS  
MONEY MATTERS  
EXTREME JUMBO BUCKS  
HOT DIGGS

**WIN UP TO \$20,000!**  
**That's A Fact Jack!**  
Arkansas

**SAVE BIG ON SCRATCHERS**

**SPEND \$5**

Get **\$1** INSTANT TICKET COUPON

Use toward your next purchase or redeem for a \$1 instant ticket FREE!

	S	M	T	W	T	F	S
APRIL			1	2	3	4	5
	6	7	8	9	10	11	12
	13	14	15	16	17	18	19
	20	21	22	23	24	25	26
	27	28	29	30			

**APRIL Offer valid 4/1-4/30**

YOU MUST PRESENT COUPON PRIOR TO PURCHASE.

**SPEND \$10**

Get **\$2** INSTANT TICKET COUPON

Use toward your next purchase or redeem for a \$2 instant ticket FREE!

	S	M	T	W	T	F	S
MAY					1	2	3
	4	5	6	7	8	9	10
	11	12	13	14	15	16	17
	18	19	20	21	22	23	24
	25	26	27	28	29	30	31

**MAY Offer valid 5/1-5/31**

YOU MUST PRESENT COUPON PRIOR TO PURCHASE.

**ATTENTION LOTTERY RETAILERS:** To process this coupon, follow these steps below:  
From the main terminal screen, press the "COUPON" button and scan the barcode on the coupon for adjustment on your Financial Sales and Invoice reports.  
This coupon can be redeemed at any Arkansas Scholarship Lottery retailer. All transactions are subject to Lottery rules and applicable laws. Coupon can only be redeemed once. Limit one coupon per transaction. For promotional use only. No cash value. Original coupon required. April offer expires and with any other Lottery coupon or promotional offer.  
MAY offer expires and with any other Lottery coupon or promotional offer.  
From the main terminal screen, press the "COUPON" button and scan the barcode on the coupon for adjustment on your Financial Sales and Invoice reports.

**SPEND \$10**

get **\$2** INSTANT TICKET SAVINGS

Use toward your next instant ticket purchase or redeem for a \$2 instant ticket FREE!

	S	M	T	W	T	F	S
MAY					1	2	3
	4	5	6	7	8	9	10
	11	12	13	14	15	16	17
	18	19	20	21	22	23	24
	25	26	27	28	29	30	31

**MAY Offer valid 5/1-5/31**

**SPEND \$5**

get **\$1** INSTANT TICKET SAVINGS

Use toward your next instant ticket purchase or redeem for a \$1 instant ticket FREE!

	S	M	T	W	T	F	S
JUNE							
	1	2	3	4	5	6	7
	8	9	10	11	12	13	14
	15	16	17	18	19	20	21
	22	23	24	25	26	27	28
	29	30					

**JUNE Offer valid 6/1-6/30**

**SAVINGS ON SCRATCHERS THAT WILL MAKE YOU HAPPY! HAPPY! HAPPY!**

This coupon can be redeemed at any Arkansas Scholarship Lottery retailer. All transactions are subject to Lottery rules and applicable laws. Coupon can only be redeemed once. Limit one coupon per transaction. For promotional use only. No cash value. Original coupon required. May offer expires end of day 5/31/2014. June offer expires end of day 6/30/2014. This coupon may not be used in combination with any other Lottery coupon or promotional offer.  
**ATTENTION LOTTERY RETAILERS:** To process this coupon, follow these steps below:  
From the main terminal screen, press the "COUPON" button and scan the barcode on the coupon. For your records, a receipt will print out that confirms the \$1 or \$2 credit. You will receive a \$1 or \$2 credit adjustment on your Financial Sales and Invoice reports.

# Clarksville Rotary Club, April 10



Bishop Woosley and Robert Stebbins are standing with Rotarian Herman Houston, who owns the Harvest Foods Store in Clarksville. That store is the #3 selling lottery retailer in Johnson County.

## Arkansas Lottery Commission

### MUSL Reserves

	<b>March 31, 2014</b>		<b>Megamillion</b>		<b>Excess Reserves</b>
	<b>Reserve Balances</b>		<b>Reserve Rebalanced</b>		<b>Refunded to ASL</b>
					<b>in April 2014</b>
<b>Powerball</b>	\$ 1,117,020	*			
<b>Megamillion</b>	\$ 805,241	*	\$ 677,059		\$ 128,182
* Required MUSL Reserves fully funded March 31, 2014					

# Debit Card Survey Summary\*

- ***Do you accept debit cards?***

37 states responded that they accept debit cards for the purchase of lottery tickets. 10 of those states allow retailers to decide whether or not to accept them.

- ***Did you see an increase in revenue because of debit card use?***

11 states responded to the question and most of those responded that they had allowed debit cards from inception and therefore had no base of comparison. All but one of the remaining states indicated that they did not track that sort of information.

- ***Is your retailer sales commission increased for debit card purchases?***

All lotteries surveyed reported that they did not increase retailer commissions for debit card purchases.

- ***Do you pay a fee, commission, or other amount to offset any fees for debit card use?***

All stated that they do not pay a fee or other amount to offset debit card use, and a few lotteries responded that the retailer may not pass any debit card-related fees on to the customer.

- ***Did you see a decline or loss of retailers since acceptance of debit cards for lottery purchases?***

A handful of lotteries stated that they had always allowed debit cards, so had no base of comparison and a few others responded that there had been no impact.

*Of the 46 respondents to the survey, only one – the Ontario Lottery - had demographic information about debit card users. Their 2009 study indicated that 87% of customers used cash for their last purchase and 13% used a debit card. The study also indicated that men and women over the age of 55 had a greater tendency to use cash for their purchases.*

# Debit Card Survey #2\*

Statements	All Surveyed (N=500)*	“Often/Sometimes” Lottery Players (N=219)*
I would spend more on lottery products if I could use a debit card.	18%	24%
I would buy tickets more often if I could use a debit card.	22%	31%
It would be more convenient for me to use a debit card rather than paying cash.	42%	47%
There have been times in the past that I have <u>NOT</u> purchased a lottery ticket because I did not have cash on hand.	49%	55%

\*State-wide survey of 500 Arkansas adults 18+ conducted by Strategic Market Research in March 2014. A combined methodology of telephone research and online research utilizing a Random Digit Dial (RDD) sample of N=150 was collected, as well as, N=350 online surveys.

# Lottery Awareness Tracking Study

**April 16, 2014**

# Background and Methodology

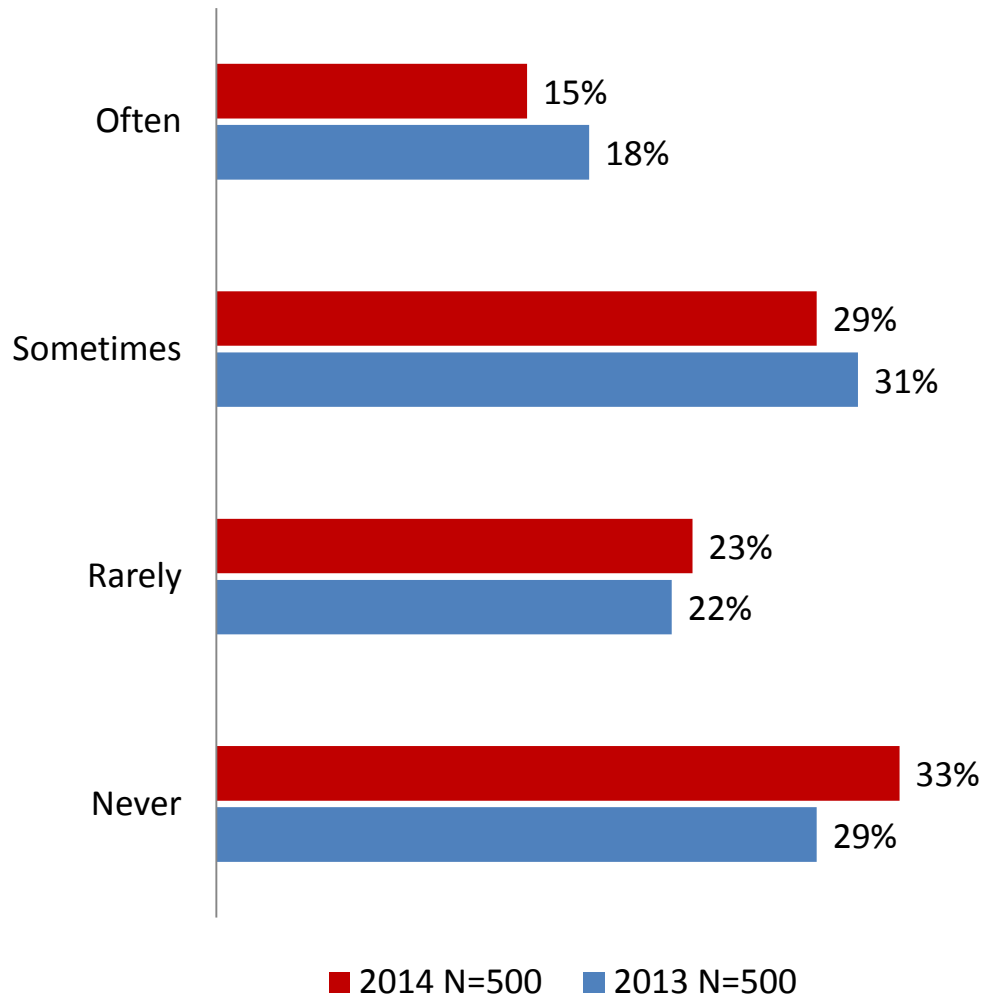
- In March of 2013, Strategic Market Research conducted a survey, on behalf of the ALC, to measure frequency of play, advertising awareness, lottery perceptions and beneficiary awareness.
- In March of 2014, as a way to track those same 2013 measurements, Strategic Market Research conducted the same survey (with additional questions related to debit card preference and jackpots.)
- A combined methodology of telephone and online research was utilized of a sample of 500 Arkansas adults 18 + (N=150 phone surveys were collected, as well as, N=350 online surveys.)
- The 2014 survey was seven minutes long and included fifteen lottery related questions.



# Lottery Games

## Frequency of Play

Q1. How often do you play the Arkansas State Lottery games? This includes buying Natural State, Powerball, Mega millions, and scratch-off game tickets.



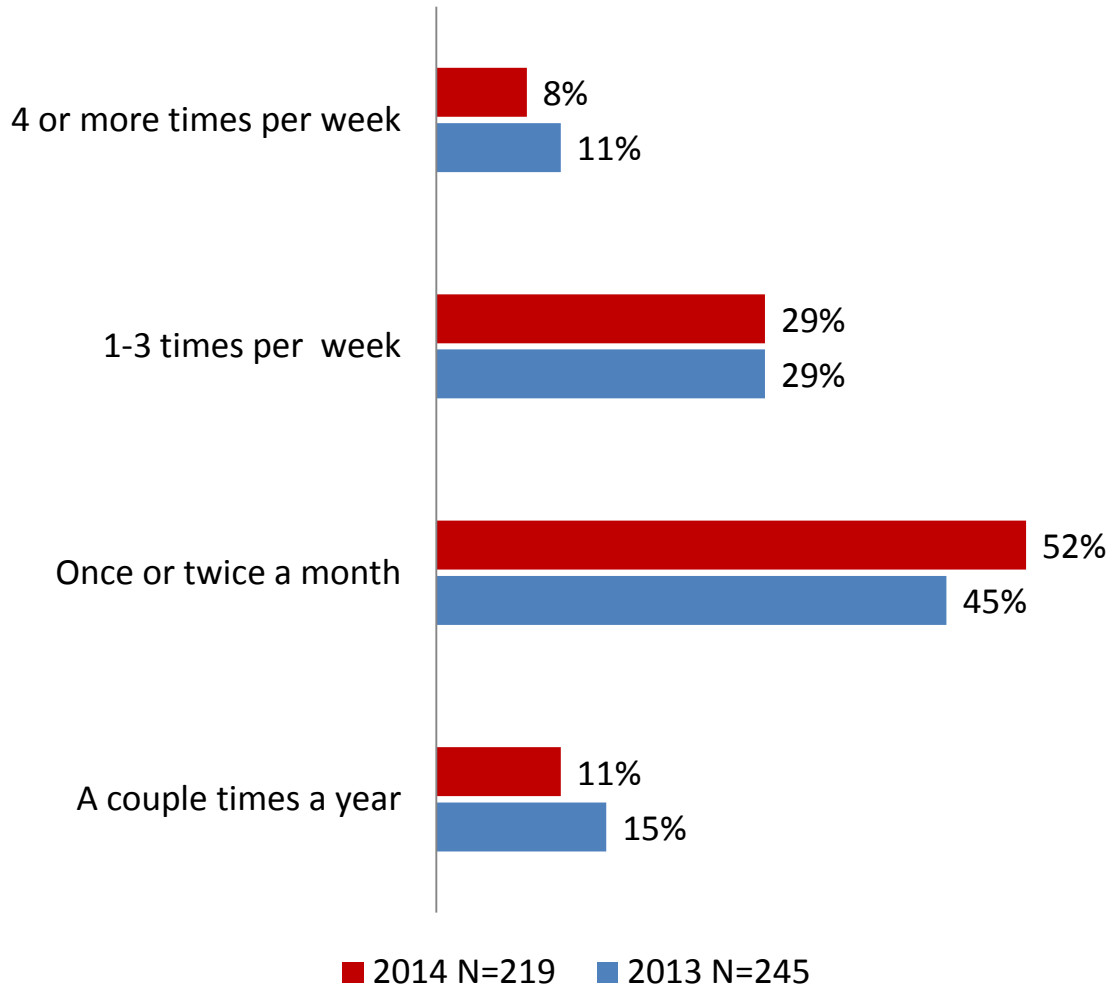
### Overall Frequency

- Forty-four percent of people surveyed say they play often or sometimes.
- The percentage of those who play the lottery *often* has decreased from 18% in 2013 to 15% in 2014. Furthermore, those who play *sometimes* also decreased by 2%. Although the decreases are not significant, they are noted.

# Lottery Games

## Frequency of those saying “Often” or “Sometimes”

Q2. More specifically, how often would you say you play?



### Specific Frequency

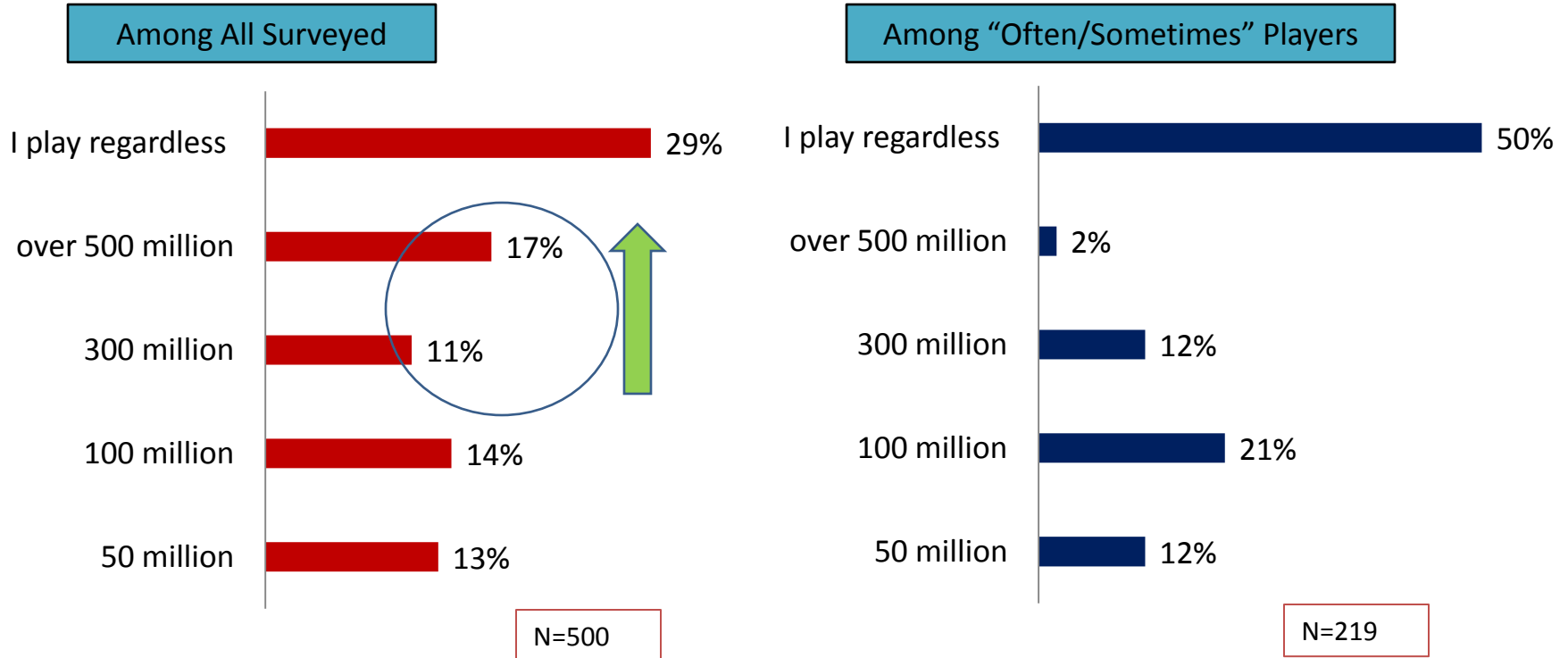
- The majority (52%) say they play *once or twice a month*. Nearly a third (29%) play *1-3 times per week*.
- The percentage of those who play *4 or more times per week* decreased slightly from 11% in 2013 to 8% in 2014.

# Arkansas Scholarship Lottery Games

## Jackpot Levels

Q12. I play Powerball and Mega Millions when the jackpot level reaches: New question in 2014.

- Among all surveyed, 29% say they play the lottery regardless of jackpot level. Not surprisingly, of those who indicate they play “often/sometimes” half say they play regardless of jackpot level, which is significantly *higher* than 29%.
- Among all surveyed, a significantly greater percentage will play when the jackpot level reaches *500 million* (17%) compared to *300 million* (11%). It appears it takes a higher jackpot to entice people to play the lottery.

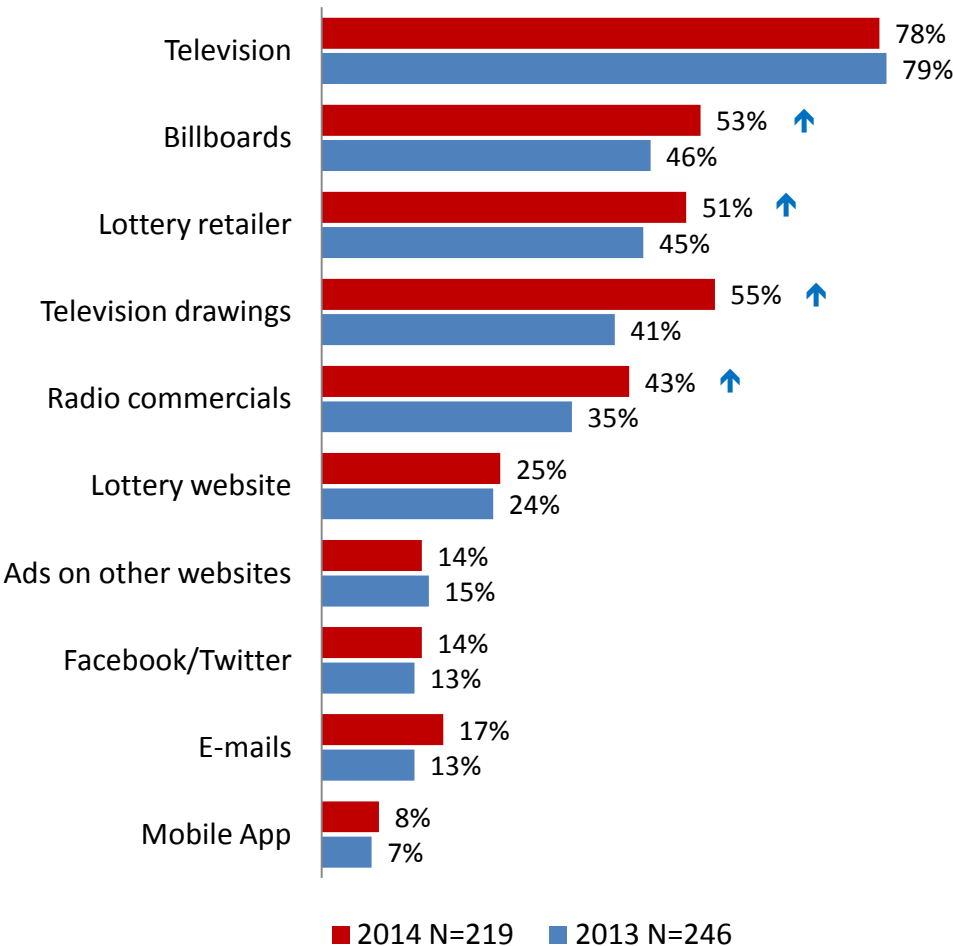


# Advertising Awareness

## Ad Recall Among Those Who Had Seen or Heard Advertising.....

Q8. In the past month have you seen or heard any lottery advertising on the television, radio, on websites, billboards, or signs/posters at a lottery retailer? Q10. Where do you recall receiving jackpot information and reminders to play Powerball and Mega Millions?

### Where do you recall.....



- In 2014, 76% say they have seen or heard lottery advertising in the past month. This is consistent with 2013 results.
- Television remains the highest level advertising medium with the vast majority (78%) indicating they recall information and reminders on television commercials.
- A significantly greater percentage in 2014 mention *billboards* (53%) compared to 2013 (46%). Additionally, significantly greater percentages mention *lottery retailer signage*, *television stations that air the drawings*, and *radio commercials*.
- A significantly *higher* percentage of *females* mentioning *billboards*, *lottery retailer signage*, *television stations that air the drawings*, and *radio commercials* was found in 2014 compared to 2013 findings.
- In the Northeast Region, significantly *higher* percentages in 2014 mention *billboards* (61%) compared to 35% in 2013 .

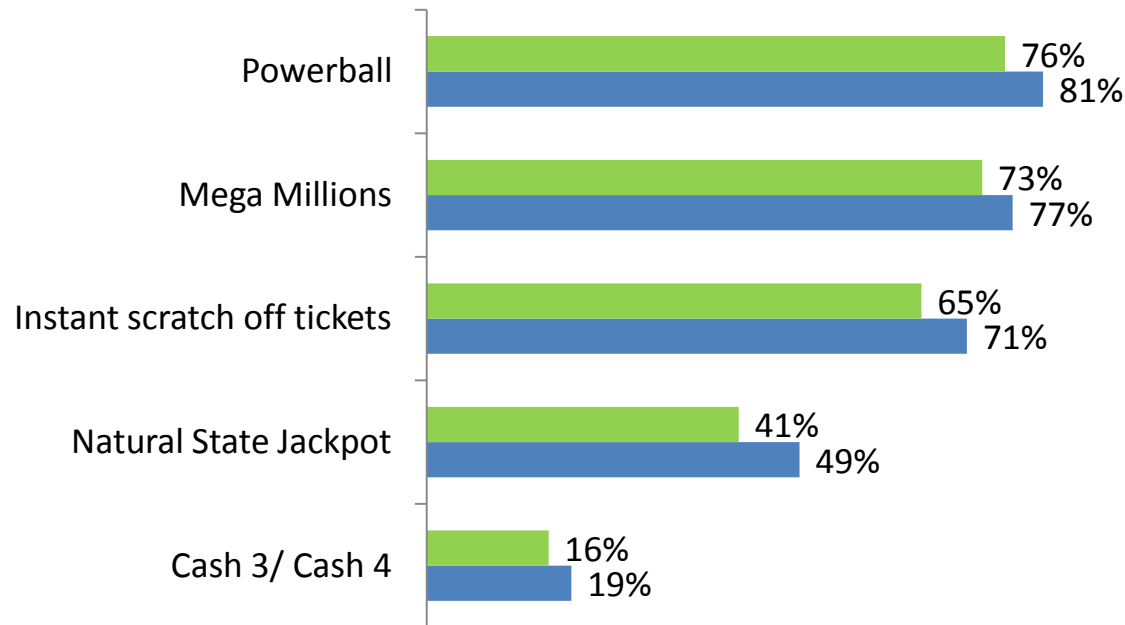
↓↑ Indicates a significant increase or decrease compared to the previous period.

# Advertising Awareness

## Specific Game Recall

Q9. Which of the following games have you seen advertisements for? New question in 2014.

- Of those who report they have seen or heard advertising, the majority report seeing ads for Powerball (76%), Mega Millions (73%), and Instant scratch off tickets (65%). These percentages do increase slightly among those who report they play the lottery in general, "often/sometimes." Advertising recall is lowest for the Cash 3 / Cash 4 games (16%).



■ Saw/heard advertising in last 3 mos. N=380

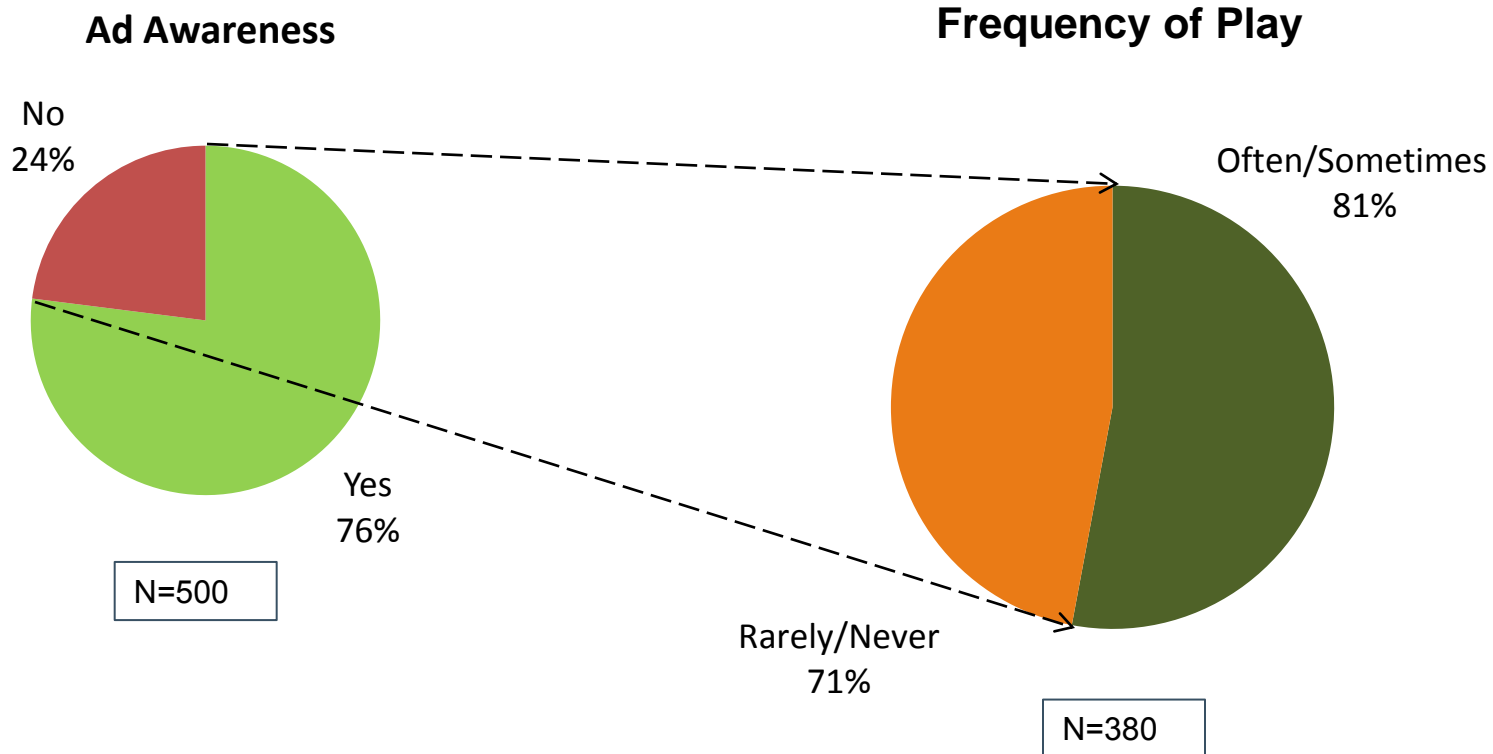
■ General frequency of play is "often/sometimes" N=177

# Ad Awareness & Frequency of Play

## Combined

Q8-- In the past month have you seen or heard any lottery advertising.....? Q1. How often do you play the Arkansas State Lottery games.....?

- As one might expect, of those who indicate they play the lottery “often/sometimes,” 81% report having seen or heard lottery advertising in the past three months. A significantly *fewer* percentage (71%) of those who indicate they “rarely/never” play the lottery report having seen or heard lottery advertising in the past three months.

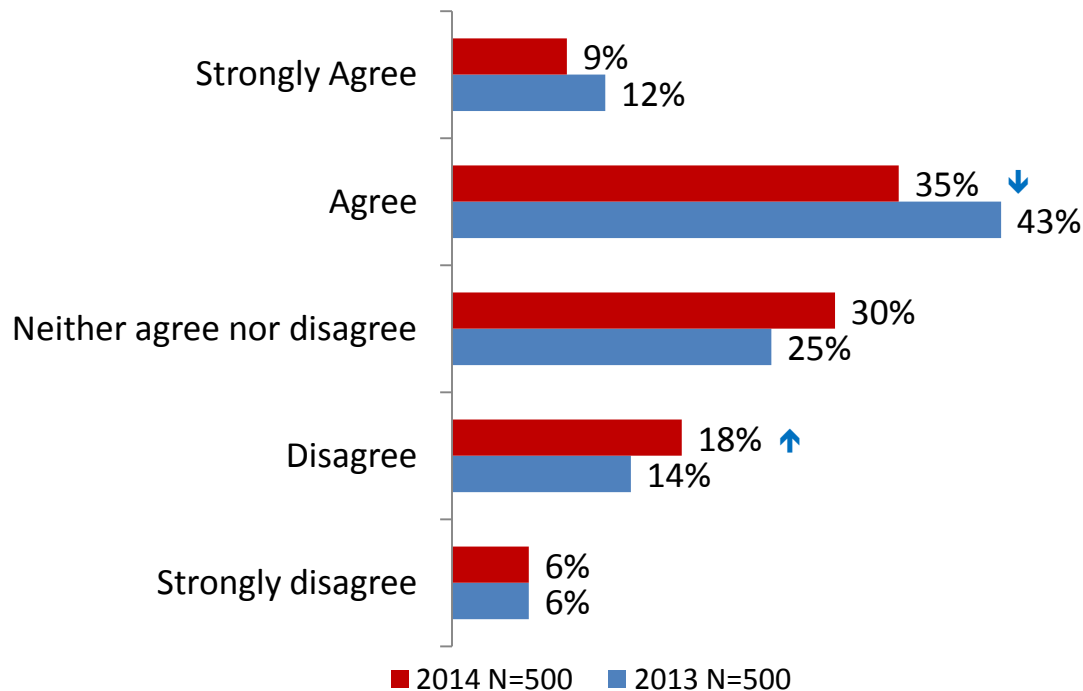


# Winner Awareness

## Lottery Winners

Q14. I hear about lottery winners. Would you say you...?

- Combining both *strongly agree* and *agree* responses, 44% in 2014 give top two box ratings in agreement in terms of hearing about lottery winners. This represents a significant *decrease* compared to 2013 top two box findings (55%).
- The above finding exists because of a significant difference in the Central Region of the state, which affects total findings. Also, the percentage of those who *agree* is significantly lower (35%) in 2014 compared to 2013 (43%).



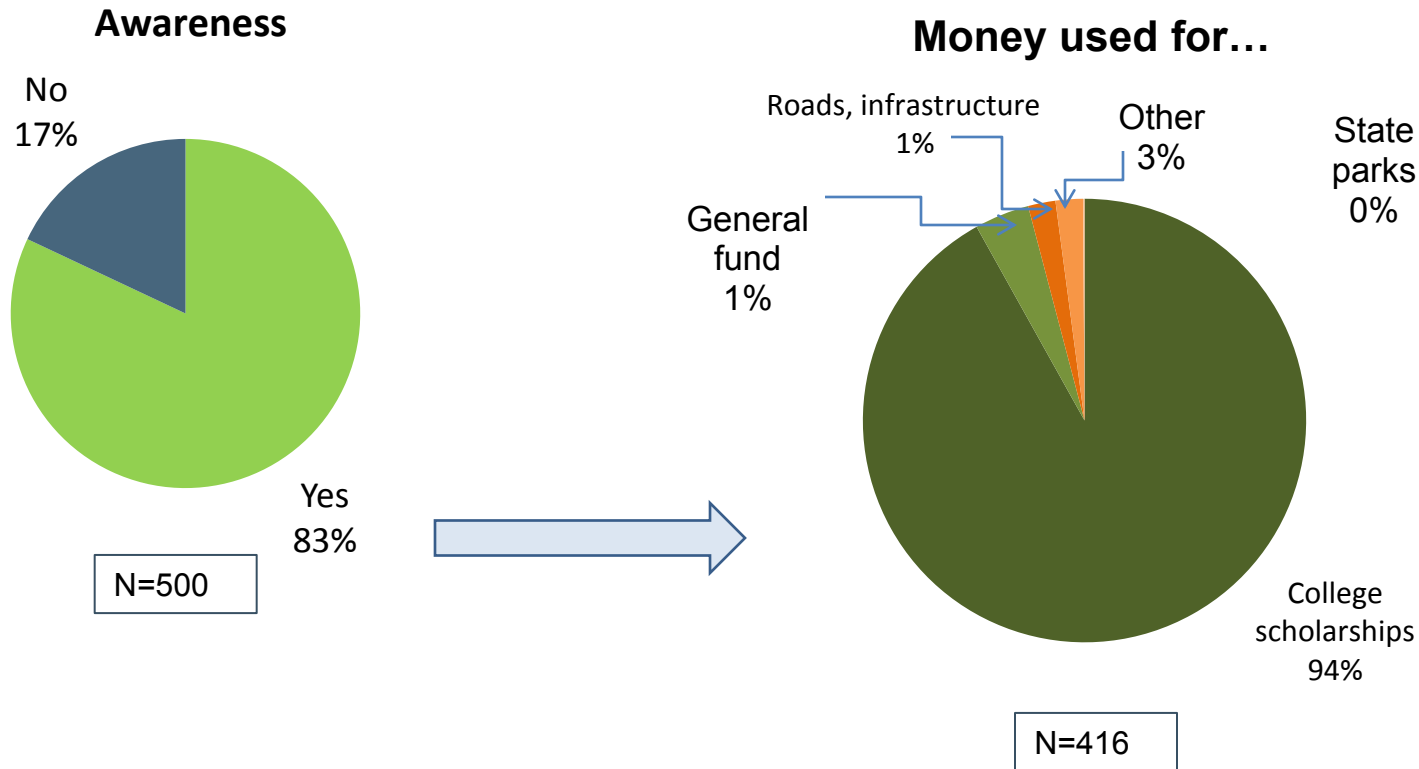
↓↑ Indicates a significant increase or decrease compared to the previous period.

# Beneficiary Awareness

## Net Proceeds

Q3. Are you aware of what the money made by the Arkansas Lottery is used for? Q4. What is the money used for?

- Consistent with previous results, the vast majority (83%) say they are aware of what the money made by the lottery is used for. In 2014, 94% correctly say the money is used for *college scholarships*, up slightly from 91% in 2013. The only significant finding compared to 2013 results is the percentage of those saying *general fund* in 2013 (4%) *decreased significantly to 1%*.



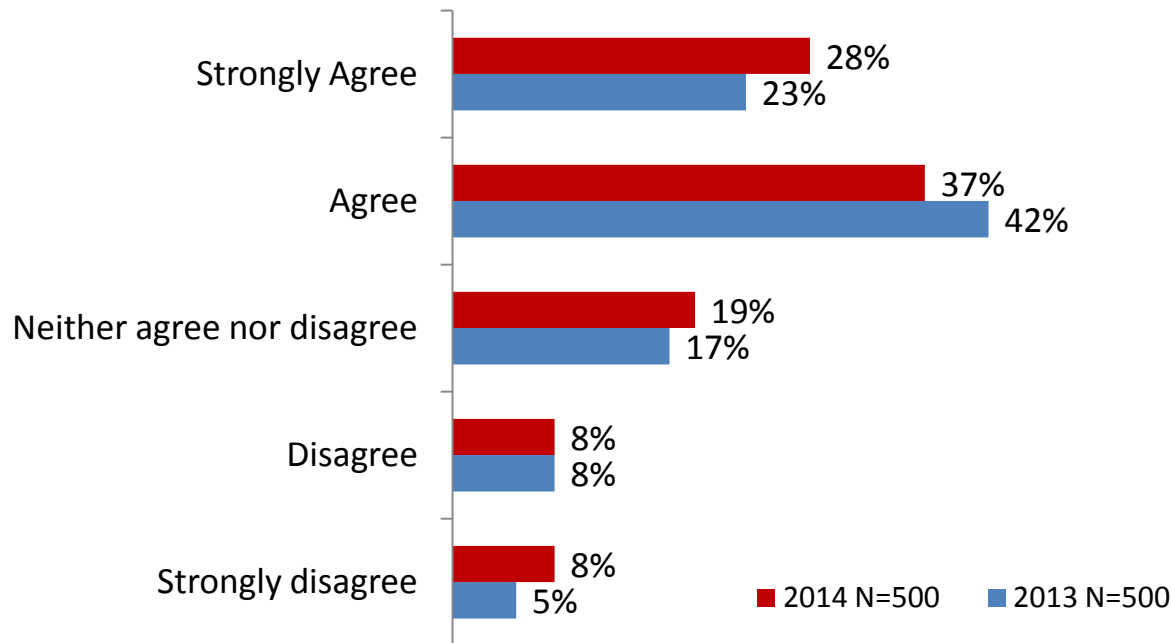


# Beneficiary Awareness

## Net Proceeds

Q13. The lottery is a good way for the state to support students who want to go to college. Would you say you...?

- Sixty-five percent either *strongly agree* or *agree* the lottery is a good way for the state to support students (top two box). This consistent with findings in 2013.
- While agreement is high overall, those age 35-44 were significantly *more* likely to *strongly agree* (42%) in 2014 compared to the same age group in 2013 (18%).





**Thank you!**

**Questions?**