

MINUTES  
ARKANSAS LOTTERY COMMISSION  
Wednesday, May 11, 2011  
1:00 p.m.  
ALC Conference Room  
Third Floor  
124 West Capitol Avenue  
Little Rock, Arkansas

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Chairman Lamberth called the meeting to order. In attendance also were Commissioners Pickard, Engstrom, Faris, Hammons, Malone, Shipp and White, and Commissioners Campbell by conference call. The ASL was represented by Director Passailaigue, Internal Auditor Hyde, David Barden, Ernestine Middleton, Bishop Woosley, Julie Baldridge, Patricia Vick, Lance Huey, Philip Miley, Whitnie Hall, Valerie Basham, and Jeremy Smith.

Commissioner Lamberth expressed the thanks of the Commission and of the students of Arkansas to outgoing Commissioners Susan Ward-Jones and Derrick Smith. She welcomed and introduced the two newly-appointed Commissioners, Steve Faris of Central, appointed by Senate President Pro Tempore Paul Bookout, and Bruce Engstrom of North Little Rock, appointed by Speaker of the House Robert Moore.

Chairman Lamberth requested approval of the minutes of the March 9, 2011, meeting and the March 11, 2011, emergency meeting. After motion of Commissioner Malone, seconded by Commissioner Hammons, the minutes were approved unanimously.

Chairman Lamberth outlined the steps that had been taken to amend the ALC Retailer Licensing Rules, including a two-year license and a lowering of the communication fee, and announced a recess to allow the Public Hearing requirement. She called on Bishop Woosley, who explained the changes and asked for comments. There being none, Commissioner Lamberth called an end to the Public Hearing and reconvened the Commission meeting.

Commissioner Pickard was recognized and introduced Arkansas Department of Higher Education Interim Director Shane Broadway. Director Broadway thanked the ALC and the staff for producing the new advertisements on the Challenge (Lottery) Scholarships, saying they were better targeted to get the word out on the availability of the scholarships and the upcoming June 1 deadline to apply. He then announced that as of noon that day (May 11, 2011), 10,454 students had been offered scholarships for academic year 2011-12. In behalf of the Commission, Commissioner Pickard thanked Director Broadway and invited him to the July 2011 ALC meeting for an update. Commissioner Lamberth added that a quarterly update would be most welcome. Director Broadway accepted the invitation and added that there would be a change in accounting procedures so that lottery funds spent in behalf of ADHE business would be shown as coming from the gross scholarship revenue instead of the current system, which adds those expenses to lottery administrative costs.

Director Passailaigue presented his report on lottery sales, products, and scholarships (included in file). He emphasized the importance of the retailers and explained the selling and cashing commission, and high-tier prize selling bonus. He discussed the draw and instant games and went over the profit margins and additional vendor, administrative and advertising costs, and the remaining scholarship funding. He pointed out that Arkansas is number one nationally during calendar year 2010 in the percentage of instant sales to total sales.

Commissioner Malone inquired what other states do to increase their sales of online/draw tickets. He suggested that the staff inquire as to the methods of other states in increasing these sales. Commissioner Engstrom recommended incentives to the retailers for the sale of online/draw tickets. The Director said the return of unclaimed prizes by the Legislature would enable promotions that previously were not budgeted as part of the advertising and marketing budget. His forecast for scholarship funding was an amount he expected to exceed \$100 Million during FY2011. He said the Lottery faced challenges such as the rising gasoline prices, weather and the increase in ADHE administrative costs from \$217,000 in FY2011 to \$1.3 Million in FY 2012. He displayed comparisons between FY 2010 and FY 2011. Commissioners Faris and Engstrom asked to put off action on the ADHE \$1.3 Million budget item for one month, pending clarification from the Division of Legislative Audit as to the proper accounting for these costs and it was agreed to do so.

Bishop Woosley was recognized to present information on the Request for Qualifications (RFQ) for the upcoming Comprehensive Annual Financial Report (CAFR). It was noted that there is a training provision and that the RFQ specified a one-year arrangement with the option for annual renewal for up to six years. He said the price would be negotiated further once the proposals are received. Commissioner Engstrom inquired about the option of preparing the report in-house. There was more discussion on whether GAAP knowledge was required when the original hiring of lottery personnel occurred. The Director further explained that the necessity for the RFQ was to ensure compliance with the new reporting requirement passed by the General Assembly during the 2011 session and that the agency was following the State's precedent in seeking assistance in perfecting the reporting process. Discussion followed. With a motion from Commissioner Engstrom, seconded by Commissioner Malone, the Commission voted unanimously to issue the RFQ and a contract, pending Legislative Oversight Committee review if necessary.

Steve and Linda Saferin, founders of Media Drop In (MDI), were introduced and it was noted that MDI was acquired by Scientific Games as its licensed property and loyalty program division. Mr. Saferin presented a PowerPoint describing their wide-ranging work (included in file). He spoke of the excellence of the Arkansas *Properties Plus* loyalty program, with 181,000 members, stating it was a phenomenal success and was well received by Arkansans. He also said that the average time spent by an individual visiting the ASL website was more than 20 minutes, comparing that to another state thrilled that their average time had increased to 1 minute. He said they were looking for a way to incorporate draw games to the *Properties Plus* program. Commissioner Malone complimented the ASL staff for their work.

Bishop Woosley next presented a wrap-up of the 2011 Arkansas General Assembly, describing lottery-related legislation. The outcome resulted in the bills favored by the ALC passed, and those opposed by the ALC failed or were sent to interim study.

Michael Hyde presented an Internal Audit Report (included in file) which reviewed the Legislative Audit findings and progress made, summarized the three-year plan, and mentioned his consideration of either hiring a part-time auditor or contracting for such services. By motion of Commissioner Malone, seconded by Commissioner White, the Commission unanimously approved the three-year audit plan and authorized exploration of the hiring a part-time auditor or contracting for such services, assigning to the Administrative, Finance and Audit Committee the responsibility for resolving the latter issue.

Commissioner Lamberth noted that the Legislative Oversight Committee had asked that the ALC review all contracts for cost-saving possibilities.

Commissioner Hammons reported that the Personnel Committee met Monday, May 9, with himself and Commissioners Pickard and Campbell present and reviewed the Office of Personnel Management recommendations and the responses. On behalf of the Committee, he asked for a final review by OPM of their responses. Vice President Middleton responded that since May 9, OPM has reviewed ASL responses to all eleven questions and the final information was sent to the Personnel Committee members May 10. Commissioner Lamberth asked that the Personnel Committee reconvene as quickly as possible in order to complete this process.

The next agenda item was the election of ALC officers and Commissioner Campbell nominated Commissioner Lamberth the 2011-12 Chair, seconded by Commissioner Malone. The Commission voted unanimously to elect Commissioner Lamberth. Commissioner Faris asked that the Commission at its next meeting consider, for the future, a line of succession for the chairmanship. Discussion followed. Commissioner Shipp nominated Commissioner Malone for the position of Vice Chair, with a second by Commissioner Faris. The Commission unanimously approved Commissioner Malone as 2011-12 Vice Chair. Commissioner Engstrom nominated Commissioner Pickard for the position of 2011-12 Secretary-Treasurer, with a second by Commissioner Faris, and he was unanimously elected.

Commissioner Lamberth set the next meeting for the second Wednesday in July. She then asked for each Commissioner to indicate a preference for their Committee appointments on the form provided and submit those forms to Ms. Baldrige. Commissioner Malone recommended the combination of the Legal Committee and the Administrative, Finance and Audit Committee and with no objection, the Commission gave assent.

The meeting was adjourned.