

MINUTES
ARKANSAS LOTTERY COMMISSION
Monday, September 17, 2012
1:30 P.M.
Willard Walker Hall, H. L. Hembree Room
University of Arkansas
Fayetteville, Arkansas

Chairman Ben Pickard called the meeting to order. Commissioners George Hammons, Bruce Engstrom, Raymond Frazier, Mike Malone, Dianne Lamberth, Smokey Campbell and Patty Shipp were also present. Staff members present included Director Bishop Woosley, Internal Auditor Matt Brown, Maria Craig, Julie Baldrige, Robert Stebbins, Mark Hearn, Ali Mustafa, and Jeff Fitch.

Prior to convening the meeting, present members of the Commission attended a luncheon with Chancellor David Gearhart and a number of University of Arkansas officials at the Chancellor's Residence.

The first order of business was consideration of the draft minutes of the August 20, which were approved without dissent. Chairman Pickard recognized Richard Hudson, University of Arkansas Vice Chancellor for Government and Community Relations, who welcomed the Commission and briefed the Commission on the University's goals in coming academic years. Vice Chancellor Hudson then introduced two students and current recipients of the Lottery-funded Arkansas Academic Challenge Scholarship. Colby Thompson of Bald Knob, a pre-nursing sophomore and a member of the Marching Razorbacks, and Grace Usiel, originally from Micronesia and for more than a decade a resident of Fayetteville, a biomedical engineering major, addressed the Commissioners about the effects of the scholarship on their educational goals (remarks in file).

Next, Chairman Pickard greeted Fayetteville Chamber of Commerce Director Steve Clark, who presented insight into the growth of Fayetteville and the broad financial impact of the scholarships on the Fayetteville economy.

Chairman Pickard recognized Director Woosley for his regular report (included in file). The Director recognized staff present, in particular the two Marketing and Sales Representatives and the Regional Sales Manager for the Northern District, and greeted Patrick Ralston, Bureau of Legislative Research and representing the Legislative Oversight Committee. He noted that while sales were down in instant tickets and up for draw tickets, falling short of total sales last August, the net proceeds were higher than net proceeds last year if calculated by the same method. He attributed the difference to the higher profitability of draw tickets. He also noted that the first \$20 ticket had just come out last year, driving sales of instants to a higher-than-normal level, and pointed out that it was interesting but not probative to compare a month last year with a month this year. He pointed out that unclaimed prizes since the beginning of FY2013 are listed separately from net proceeds and will be added back in at the end of June 2013. He said he was pleased to see that the strategy to emphasize draw games had resulted in protection of the scholarship dollars even as sales slipped slightly.

Director Woosley reported that the Natural State Jackpot had been a bright spot in the last month. He said sales were around \$600,000, much higher than expected. He said that they

had projected the average jackpot amount to be around \$158,000, and that the first jackpot had hit at \$100,000 by a Mountain Home player. He said that in 18 days of sales, the NSJ had resulted in \$246,000 in prizes and \$32,000 in retailer commissions. He said the staff was very hopeful for this game and happy with the launch. Commissioner Malone said that the marketing for NSJ had been great and asked if it would continue. The Director said that he wanted it to be one of the Lottery's core games so he will lean toward to pushing that in marketing. He said there had been a lot of positive feedback on the game. He showed the Commissioners the next \$20 game, \$1,000,000 Riches, and described the prize structure. He said that the Arkansas Millionaire's Club \$20 ticket introduced a number of months ago has one \$1 Million prize remaining and will likely be left open until that ticket is purchased. He went through the games that will be introduced over the next few months, and said he would present at the October meeting the contract amendment for the PAD displays for 600 retailers. He also reviewed promotions coming up and discussed the Points for Prizes drawings for merchandise. Commissioner Engstrom expressed his pleasure at the continued use of Arkansas products in these promotions; and the Director said he was making calls on Arkansas companies with products appropriate for drawings. It was discussed that the Lottery is looking at stays in Arkansas State Parks as well. Discussion of sales followed, touching on the higher price of Powerball tickets, the boost from Natural State Jackpot, the loss of interest in older games, and the like. Commissioner Engstrom asked about measurement of effectiveness of advertising, and the Director said that there were methods but their accuracy was in dispute. He mentioned the frequent focus groups and said that there had been some changes and that the process was being watched closely. Commissioner Engstrom said he would like to contact the head of marketing at UA to see if there is such a tool.

Internal Auditor Matt Brown was recognized. Commissioner Lamberth, representing the Audit and Legal Committee, informed the Commission of the Committee's approval of the Auditor's Three-Year Audit Plan, and distributed a copy of the record of that meeting (in file). He began a presentation (included in file) on the three-year audit plan by noting that the previous plan was approved in May of 2011, for 2012 to 2014, and said that it is time to add 2015 to the plan.

He reviewed how the previous three-year plan was developed, noting that it comprised several common audit projects that were completed each year, and then a universe of 33 processes that were assessed according to risk and then made part of plan in the form of rotating audits. He said that after studying the operations and discussions with management of the Lottery, he had developed an audit universe of 50 processes and a ranking of these areas to aid in deciding how often each should be audited. He said that he had reevaluated the risk assessment process used in the past—developed prior to recent audits and prior to Director Woosley's appointment—and that he believes reevaluations should continue at regular intervals in the future, as time passes and changes continue. He said that each plan must consider resources available, and noted that the Commission now has two CPA's in the Internal Audit section.

He noted that the audits for 2012 must be completed and pointed out that he had allotted the period ending December 31, 2012 for that work, leaving six months to complete the Fiscal Year 2013 audits as scheduled. He went through the considerations utilized in the risk assessment study he performed. He emphasized that identifying an area with risk does not mean that controls are not in place to control that risk.

He said that he had merged processes for efficiency and redefined some processes, resulting in the 33 previously-defined areas fitting now into a 25-process universe. He stated that 17 additional processes were either included in the risk assessment for the first time or added as part of the current risk assessment, to arrive at an audit universe consisting of 42 processes in

total. He said he had looked at other lotteries' audit plans in order to reach these conclusions. He described the end result of the process. He said he had retained three projects during each year of the plan, one of which is consultant-based, which is the instant-ticket audit that had been performed in the past, and described that as worthy of continuing. He said that Internal Audit, under this plan, would have coverage of the 42 process areas during the period 2012-2015, giving him a basis for evaluation of each of them for future audits. He said there also may be new areas that should be included down the road. Commissioner Malone asked if the plan was comfortable with Legislative Audit, and he and Commissioner Engstrom agreed that there might be a conflict with that. Patrick Ralston, LOC staff, said he would discuss the plan with the LOC attorney Cheryl Reinhart and get back with Auditor Brown. Commissioner Lamberth moved that the Plan be approved, pending review by the LOC, seconded by Commissioner Engstrom. It was adopted without dissent. Commissioner Lamberth commended Auditor Brown. The Auditor went through the reviews that are currently ongoing.

Personnel Committee Chair Patty Shipp presented a report following up on a November action by the Personnel Committee to allow overtime payment to night computer operators when a multi-state game issue forces that person to work beyond the end of his or her shift. The report shows that overtime has been paid only four times since November, and Commissioner Shipp said this showed that the overtime was being managed well. She also said work was underway on creating a written document on actions needed when there are vacant positions, promotions, new hires, or demotions..

Chairman Pickard announced the appointment to the new Vendor Committee of Commissioners Campbell, Engstrom, Faris, and Lamberth. He noted that the individuals also are all on the Audit Legal Committee and asked the group to meet as soon as possible, likely at the time of the next Audit and Legal Committee meeting, to elect a Chair and Vice Chair.

In other business, Commissioner Malone thanked the Chair for scheduling a meeting at the University of Arkansas and planning to visit other campuses around Arkansas. Commissioner Frazier asked whether the casino amendment, should it pass, would affect lotteries. Commissioner Engstrom said, and the Director agreed, that development of casinos in Arkansas would cut into Lottery net proceeds and sales. Chairman Pickard said that Intralot has agreed to his request that they cover the cost of the SOC-1 Audit this fiscal year. He thanked Intralot and their regional director Steve Beck for agreeing to shoulder the cost of this audit and thus saving the expense for the lottery and improving the proceeds to the scholarship fund. Commissioner Frazier inquired of the Director about the progress on hiring an in-house attorney, and the Director said interviews were underway.

Chairman Pickard announced the next meetings as October 15 in Little Rock at 10:30, with a meeting in November or December at Arkansas Tech University and at ASU in Jonesboro in January or February. There being no further business, the meeting was adjourned.