

MINUTES

ARKANSAS LOTTERY COMMISSION

**Monday, June 24, 2013
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 Steve Faris, Ben Pickard, Dianne Lamberth, Raymond Frazier, Mark Scott and Doug Pierce were also present. Commissioners Smokey Campbell and Bruce Engstrom joined the meeting via conference call. Staff members present included Director Bishop Woosley, Chief Legal Counsel Jean Block, Matt Brown, Maria Craig, Patti Vick, Lance Huey, Jerry Fetzer, Robert Stebbins, Mike Smith, Jeremy Smith, and Terry Williams. Chairman Hammons welcomed and recognized newly appointed commissioner Doug Pierce.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on May 20, 2013. Commissioner Frazier made a motion to approve, seconded by Commissioner Lamberth, and the minutes were approved unanimously.

Report from the Internal Auditor

ALC Internal Auditor Brown was recognized to present his monthly update (included in file). He stated that he and Ms. Craig were very close to completing most of the FY 2013 audits. The Financial Accounting and CAFR audit would be somewhat delayed, as discussed at a previous meeting, due to the timing of the CAFR. There were two audit follow-ups, IT Gaming Quality Assurance and Back Office System Administration, which he stated he would like to defer to the FY 2014 Audit Plan because there would not be enough time in the current fiscal year to complete them. Mr. Brown reported that during the Accounting Close & Reporting audit, an observation was made that there were inconsistencies in the application of standards regarding completion of bank and general ledger reconciliations, although there were no grave concerns. Management responded by taking corrective measures and there will be a follow-up audit to ensure the observation is cleared.

Report from the Director

Director Woosley was recognized to give his monthly report (in file). He said that although there was an increase in Powerball ticket sales for the month of May because of the largest ever Powerball jackpot, the projected bump didn't happen. He added that this was apparently true nationwide, in that other lottery directors had noted the same trend of sales being less than expected. Regardless, lottery revenues this May were about \$5.3 Million more than last May, and the proceeds transferred in May 2013 exceeded May 2012 by \$2.3 Million.

Director Woosley noted that instant ticket sales were budgeted at \$38.6 Million, but the lottery actually sold \$29.8 Million, a negative difference of \$8.7 Million. Online ticket sales were budgeted at \$6.2 Million, but the lottery sold \$12.3 Million, earning \$6.1 Million over budget. Furthermore, despite the fact that the lottery did not meet the overall projected May 2013 budget, net proceeds exceeded the budgeted amount by \$736,000.

In discussing the year-to-date comparison of May 2013, versus May 2012, Director Woosley said that the lottery had made quite a bit of progress the last few months, and that although the YTD report reflected that net proceeds were down by \$7 Million, that amount did not include the unclaimed prizes of \$4.4 Million that would be recognized at year end; current net proceeds were actually down around \$2.6 Million.

Director Woosley discussed the ADHE Transfer Analysis, stating that during the last three months, sales were trending upward, and that the cumulative balance of transfers was about \$2.7 Million ahead of the revised budgeted amount of \$90 Million in ADHE transfers. Commissioner Pickard asked if the \$2.7 million included unclaimed prizes, and Director Woosley stated that the amount did include unclaimed prizes.

Commissioner Scott noted that on the advertising budget for May 2013, the lottery spent almost \$70,000 more this year than last year, and asked if there was any particular reason for that difference. Director Woosley replied that the lottery ramped up its ADHE advertising because of the [June 1] deadline to apply for lottery scholarships. Commissioner Scott suggested that it might be advantageous for staff to provide a report that outlined exactly how the advertising dollars were being spent. Commissioner Lamberth stated that Marketing Director Joanna Bunten provides good marketing strategy reports and asked that one be presented to the commission in the near future. Commissioner Scott added that it would be a good idea to know whether there was a game plan in place, especially as fall approaches and there are discussions about whether or not to advertise on college campuses. He said a monthly report on advertising, presented to the commission much like the auditing report, would be helpful.

Other Business

Chairman Hammons asked that each of the committees meet soon to elect officers. He also asked the commissioners to check the committee assignments to make sure they were listed on all the committees they wished to be on.

Commissioner Lamberth asked, on behalf of a member of the Legislative Oversight Committee, that the commission revisit Keno, and begin researching the topic. Commissioner Engstrom asked if Keno was incorporated into the original legislation, or if it would require a vote of the people to approve. Director Woosley replied that Keno was within the statute. Commissioner Lamberth also stated that it was within the statute, but that the lottery may need to get clarification of the word, "cash". Commissioner Faris asked Director Woosley if he had gotten any direction from the full Legislative Oversight Committee regarding Keno. Director Woosley said that one member, Representative Perry, asked that he pass the Keno question on to the ALC. Commissioner Faris asked that the ALC get a reading of how the full body of the LOC feels

about the subject prior to proceeding. Commissioner Engstrom agreed with Commissioner Faris. Commissioner Pickard also agreed, stating that when the issue was discussed initially, there was quite a bit of resistance from the legislature. He added that he, too, had concerns about enabling legislation; whether or not Keno was included in the original legislation was foggy and in need of further clarification.

Commissioner Frazier asked Director Woosley if he would give a brief summary of the Spring Directors Meeting which was held in Seattle. Director Woosley said that, generally, two consortiums met and then met jointly, and that the meetings lasted all day. The groups discussed new changes to the Powerball game and agreed to a change to the multiplier option in the future. They also talked about changes to Mega Millions, which would be a matrix change, rather than a change to the cost of the ticket. Texas was voted into the Powerball group, which added a huge member to the group and lessened liability to individual members. There was discussion about potential games that could be licensed or purchased through NASPL and individual lotteries could vote on whether or not they wanted to participate. Most topics of discussion were concepts and would be revisited in October, when the Directors would meet again.

Commissioner Pickard was recognized by the Chairman. He asked Director Woosley if there had been any further response from Scientific Games on whether or not they planned to participate in the educational grant program. Director Woosley said that Scientific Games had an alternate idea and that he would present that to Commissioner Pickard after the meeting. Commissioner Pickard stated that he was disappointed, but that he was willing to look at the alternate proposal.

Meeting Date

Chairman Hammons set the next meeting date for 10:00 a.m., Monday, July 15.

Executive Session

At 10:29, Chairman Hammons called an executive session to discuss performance evaluations for Director Woosley and Internal Auditor Brown.

Meeting Reconvened

Chairman Hammons reconvened the meeting at 11:54 a.m. He stated that performance evaluations were completed during the executive session. Commissioner Faris made a motion to expand the Retail Committee to become the Marketing and Retail Committee. Commissioner Engstrom seconded the motion, and the motion passed without dissent. Commissioner Frazier stated that the Higher Education Committee would meet at 9:30 on July 15.

There being no further business, the meeting was adjourned.