

MINUTES

ARKANSAS LOTTERY COMMISSION

Monday, August 26, 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 Smokey Campbell, Ben Pickard, Dianne Lamberth, Raymond Frazier, Bruce Engstrom, Mark Scott, Doug Pierce and Julie Baldrige were also present. Staff members present included Director Bishop Woosley, Jean Block, Matt Brown, Maria Craig, Patti Vick, Lance Huey, Jerry Fetzer, Robert Stebbins, Mike Smith, Jeremy Smith, Terry Williams, Valerie Basham, Angela Meredith, Mark Olsen, Anita Junior and Justin Rogers.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on July 15, 2013. Commissioner Pickard made a motion to approve, Commissioner Engstrom seconded the motion, and the minutes were approved unanimously.

Report from the Internal Auditor

Internal Auditor Brown gave a status report on the FY 2013 Internal Audit Plan (in file). One project remains, Financial Accounting & CAFR, which will continue into FY 2014 due to the timing of the CAFR compilation and finalization. Mr. Brown gave a brief report on results of the Employee Travel Reimbursements Audit. He made two Observations: (1) travel costs incurred by the Director and reimbursable by MUSL were not reconciled. On the Director's October 2012 trip to Miami, there was a discrepancy between costs incurred by the Director and the amount reimbursed by MUSL. Internal Audit was able to reconcile and validate the amount received from MUSL by supporting documentation. IA recommended that a person be designated to perform travel reconciliation. ALC management responded that an individual has been designated to perform such reconciliation. (2) Regarding MSR travel, there were instances of inadvertent transposition and omission of information in MSR mileage requests, resulting in lower reimbursement amounts that were due. Internal Audit recommended that Management review current reimbursement procedures and that use of the "locked" reimbursement form be emphasized. Management responded that no changes were warranted, but that use of the "locked" form has been emphasized. Follow-up audits of both observations are required to consider the observations cleared.

Report from the Director

Director Woosley reported to the commissioners (report in file) that ticket sales for July 2013 were down \$720,000 from July 2012, but revenues were actually up. As reflected in Comparative Income Statement, actual versus budget for July 2013, instant ticket sales were \$2.2 Million less than budgeted, but again, monies transferred to ADHE were up a little.

Commissioner Scott asked why \$747,115 in Unclaimed Prizes was included in the July ADHE transfer. Director Woosley explained that unclaimed prizes are added to the totals for the month to show what the Lottery actually made for that period, but that by law, the transfer of those funds to net proceeds cannot occur until the end of the fiscal year.

Director Woosley updated the Commission on the results of the Natural State Jackpot, an Arkansas-exclusive lotto-style game which was introduced in August 2012. The projected annual sales had been \$6 Million; sales as of July 31, 2013, were \$7.7 Million, signifying a resounding success. Commissioner Baldrige commended Director Woosley for initiating the game, and Director Woosley stated that although he had wanted a \$1 lotto-style game, the success was due to the hard work of the ALC team, which was responsible for the development and promotion of the game.

Presentation of Product, Marketing & Sales Plan

Director Woosley, Marketing Director Joanne Bunten and Sales Director Robert Stebbins presented the Product, Marketing & Sales Plan for FY 2014 (report in file).

Director Woosley gave a Product Development overview, along with recommendations for the upcoming year, including Instant Games, Terminal Generated Games, Player Rewards and Player Promotions. He discussed the Arkansas Million Dollar Raffle, an existing ALC game that was revamped and which would be reintroduced in September 2013. Sales for the Raffle end on December 31, 2013. The number of tickets sold will be unlimited, unlike the previous raffle, which was limited to 500,000 tickets. Another major change to the game includes the addition of three Early Bird drawings. He also discussed changes in Mega Millions and Powerball. The change to Mega Millions will occur in October 2013. Odds in winning the jackpot will decrease, but the odds of winning smaller prizes will increase. The change to Powerball will take effect January 24, 2014, the key change being the return to the popular Power Play multiplier option.

Marketing Director Bunten discussed the Lottery's advertising and marketing strategies for the year. The strategies were based on market analysis and research, while modeling on states that have been successful at accomplishing similar goals. Her plan consisted of topics such as budget overview, media flowcharts, creative development, media placement (including social media), event marketing and Arkansas Academic Challenge Scholarship & Beneficiary advertising. Recommendations include heavy promotion of the Arkansas Million Dollar Raffle, advertising of jackpots when they reach levels that trigger sales, improving winner awareness through various strategies including paid advertising, social media, retailer signage, and public relations. She stressed that the marketing plan throughout the fiscal year will remain fluid, allowing for adjustments based on market conditions, games, promotional launches, and the results of their initiatives.

Sales Director Robert Stebbins discussed sales and retailer results for the previous fiscal year and offered recommendations for Fiscal Year 2014. He discussed the consistency of the retailer network the past four years. He stated that, although the numbers have remained fairly static, consideration must be given to the average annual attrition rate of 14% and, he further explained, the sales division is constantly recruiting new businesses to maintain and increase

the retailer network. He said that the biggest increase in sales was in the northeast region of the state, with a net gain of 7%. Based on population figures, retailers needed to be added to the northwest region in order to improve overall retailer per capita sales.

Commissioner Pierce noted that one of the Lottery's key accounts, Doublebee's, was one of the top ten in ticket sales, and he asked if there was an explanation for the strength of those sales. Mr. Stebbins responded that Doublebee's stores tend to carry a larger selection of tickets and they ask for the sale.

Commissioner Pickard asked if the Lottery would have any more retailer rallies, which he felt were highly successful, and Mr. Stebbins agreed, adding that they were being planned for next year.

Commissioner Scott asked why very few of the Marketing Sales Representatives (MSRs) met their FY 2013 sales goals and why there were no MSRs who met the FY 2013 retailer goals. He asked if the Lottery was differentiating between those more successful MSRs in their merit and compensation, rewarding based on performance, and whether or not the goals were realistic, based on the low percentage of MSRs who achieved the set goals. Mr. Stebbins stated that Arkansas Lottery MSRs cannot earn financial incentives, unlike lottery sales forces in other states. Director Woosley added that the sales goals for the last fiscal year were based on sales projections which turned out to be a little high, and that the reason the majority of MSRs did not meet sales goal was because the Lottery did not meet its goal. Commissioner Scott asked if there was anything the Lottery could do to offer incentives. Commissioner Lamberth asked if Director Woosley could poll the other lotteries to see what they do for sales force incentives. She added that by Arkansas statute, MSRs could not be financially incentivized. Commissioner Scott asked if this subject was something that could be further discussed in a personnel meeting and Commissioner Pickard concurred.

Mr. Stebbins presented several goals and recommendations, including same store sales, development of a new retailer call schedule based on sales and future growth, refinement of new retailer acquisition, and the consideration of new sales tools to deploy in territories.

Reports from ALC Committees

Commissioner Scott reported that the Vendor committee had met at 9:30 a.m. for election of officers. Commissioner Scott was elected Chair and Julie Baldrige was elected Vice Chair. Items discussed during the meeting included the expiration of vendor contracts in 2016 and the necessity to review/study contracts well ahead of time.

Commissioner Pickard reported that the Personnel committee had met on July 15 to elect officers. He was elected Chair and Commissioner Lamberth was elected Vice Chair.

Commissioner Frazier reported that the Higher Education committee met on July 15 and officers were elected. Commissioner Frazier was elected Chair and Mark Scott was elected Vice Chair.

Other Business

Chairman Hammons stated that Commissioner Faris's resignation from the commission left vacant the position of Vice Chair and that, following the Rules of Succession, Secretary-Treasurer Campbell would move up to that office for the remainder of the term. Chairman Hammons called for the election of Secretary-Treasurer. Commissioner Pickard nominated Commissioner Baldrige, which was seconded by Commissioner Scott, and Commissioner Baldrige was elected Secretary-Treasurer by unanimous consent.

Following discussion of recent media coverage, Commissioner Scott asked Director Woosley to please periodically forward state-wide media to the commissioners.

Meeting Dates

The next commission meeting was set for 10:00 on September 16, 2013. There was discussion of the possibility of moving the commission meetings to the third Wednesday of each month, beginning in October.

There being no further business, the meeting was adjourned.