

RECORD

VENDOR COMMITTEE

3.19.2014, 9:00 a.m., Little Rock Headquarters

The meeting was called to order by Commissioner Scott. Committee members present were Commissioners Baldrige, Campbell, Lamberth, Engstrom, and Pierce. Also present were ALC Chairman Hammons, Director Woosley, Internal Auditor Brown and staff members Smith, Block, Bunten, Stebbins, Vick, and others.

The first order of business was approval of the record of the February 19, 2014, meeting. Commissioner Engstrom moved to approve the record and Commissioner Baldrige seconded the motion. The motion passed unanimously.

Commissioner Scott recognized Internal Auditor Brown. Mr. Brown gave a brief recap of the performance audit discussion of February 19, 2014, reminding the committee that he had used the North Carolina Education Lottery (NCEL) as a model. During that meeting there had been a suggestion that ALC consider the use of internal resources to accomplish at least part of what was presented in the NCEL performance audit report, e.g., benchmarking, as a cost savings measure. He presented to the committee a *Report of Benchmarking and Trending Data* (in file). He stated that Internal Audit took the data that was available and attempted to recreate the performance measures that were in the NCEL report. Mr. Brown said that the benchmarking portion of the audit took about five days and cost approximately \$50,000. He added that the vendor could take a look at our benchmarking and give [ALC] feedback on the data. Commissioner Engstrom commented that ALC could gather the raw data and the audit vendor could draw conclusions from the data, followed by their recommendations. He noted that the NCEL benchmarking included comparable lotteries. He requested that ALC staff choose eight to ten comparable lotteries and that committee members narrow the list to four or five lotteries for comparison.

Commissioner Scott asked if there was some ambiguity about whether or not the performance audit would have to be bid out. Director Woosley stated that the law gave the Bureau of Legislative Audit to right of first refusal of any ALC audit.

Commissioner Engstrom asked if the performance audit would address staffing levels. Mr. Brown stated that one of the measures in NCEL's audit was a calculation showing return per employee. That report divided the amount of sales by the number of employees. He added that employee staffing could be added to the scope of the audit. Director Woosley stated that for those who would take the Internal Audit report and look at the employee return, the state of Nebraska might show a return of \$1 Billion, but they have just 12 employees. In Texas, the vendor GTech provides 100 sales representatives – and those are not included in the Texas employee staffing numbers.

Commissioner Engstrom asked if ALC was structurally efficient, or did staffing levels need some adjustment. Commissioner Baldrige stated that the staffing structure

was created whole cloth by [ALC Vice President of Administration] Ernestine Middleton before the lottery sold its first ticket and one would have to assume there would be areas in need of improvement. Commissioner Lamberth added that the positions were created in hopes that they had “the right mix,” but as time had gone by, it appeared that changes would need to be made. She suggested that the subject go through the Personnel Committee after [staff members] have come up with some ideas.

After continued discussion, Commissioner Baldrige said that she would like to see action regarding the Performance Audit. Commissioner Scott responded that with that in mind, the next step would be to choose criteria on which to base an RFP. Commissioner Engstrom asked that in order to move the process along, the Vendor Committee reconvene in two weeks or so, perhaps by conference call.

Commissioner Baldrige asked Mr. Brown what he thought the turn-around time was for the NCEL bid, from RFP to completion of the audit. Mr. Brown responded that for NCEL it had been a two or three month process, and he expected a similar turn-around time for ALC.

Commissioner Engstrom made a motion for ALC staff to compile a list of 8 to 10 comparable lotteries and to develop audit criteria to provide to Legislative Audit in preparation for an RFP. Both were to be provided to the Vendor Committee in 2 weeks’ time. Commissioner Baldrige seconded the motion and the motion passed unanimously.

The committee recessed at 10:00.

The meeting resumed at 11:30. Committee Chair Scott recognized Director Woosley, who gave a presentation on monitor games (in file). Director Woosley stated that his presentation would describe what a monitor game was and it would also show what other states do with monitor games. He would play a brief video illustrating how proposed monitor games would be played in Arkansas.

He explained that monitor games were lottery games generated by the terminal and that the play method was identical to other Arkansas Lottery and multi-state draw games (e.g., Powerball and Mega Millions). The player’s numbers could be selected manually by using a play slip or could be randomly selected for them by choosing the Quick Pick option, again the same as for other Arkansas Lottery and multi-state draw games. Winning numbers would be determined by a random draw, as in all other Arkansas Lottery and multi-state draw games. Animated draw results for monitor games would be displayed on TV monitors. He said that monitor game draws were traditionally held every four minutes. Director Woosley emphasized that there would be no interaction between the player and the monitor and that it was not the same thing as a video lottery terminal (VLT), which is specifically illegal in Arkansas.

Director Woosley described and explained monitor game types. Keno is the most played monitor game. It is played in 15 U.S. lotteries, with the draws conducted by a lottery's central gaming system random number generator. Card games are played at one U.S. lottery. The winners are based on real card hands and matching cards, with the draw conducted by a participating lottery's random number generator. Lucky Numbers Bingo is set to launch in June 2014 in New Mexico. He said that there are currently 15 states with monitor games that draw every four or five minutes, and that since 2006, six lotteries have added monitor games. Out of those fifteen lotteries, seven sell only at retailer locations with monitors.

Director Woosley stated that a major benefit of monitor games to Arkansas would be that the game would be less likely to cannibalize other lottery games. The games would be placed with retailers that do not currently do business with ALC.

Commissioner Engstrom commented that the subject of Keno had come up at the beginning of the lottery. He asked the Director if he any indication from the people of Arkansas that they feel differently toward Keno now than they did back then. He added that he would be somewhat reluctant to support Keno. Mr. Robbie Wills, a representative for Intralot, responded that he was the lead sponsor of the Arkansas Scholarship Lottery Act in 2009 and the issue of Keno did come up at that time. He said that in developing the bill, the idea was to give ALC the exact same sort of authority that any other lottery in the country had, with the exception of the prohibition against VLTs, which was a concession to Arkansas's pari-mutuel sites (Oaklawn and Southland). He added that he had made peace with [monitor games] five years ago when the legislation was being put together and at peace with[monitor games] now.

Commissioner Engstrom made a motion that the consideration of monitor games be moved to the full commission. Commissioner Lamberth suggested that Director Woosley first meet with other entities to discuss any concerns, prior to bringing it out of the committee. Commissioner Engstrom stated that he would like to move forward with his motion to move monitor games out of the committee, adding that if there was any feedback that needed to be considered, it could be addressed by the full commission. The motion was seconded by Commissioner Pierce. Commissioners Scott, Baldrige, Pierce, Campbell and Engstrom voted for the motion. Commissioner Lamberth voted no. The motion carried to move the consideration of monitor games out of the Vendor Committee, to be presented to the full commission at the meeting on April 16.

There being no further business, the meeting was adjourned.