

RECORD

VENDOR COMMITTEE

4.16.2014, 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 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 March 19, 2014, meeting. Commissioner Baldrige moved to approve the record and Commissioner Engstrom seconded the motion. The motion passed unanimously.

The next order of business was the discussion of a performance audit. Commissioner Scott reminded the committee that during the last meeting the members had asked ALC staff to choose comparable lotteries for use in benchmarking. Director Woosley stated that he asked Internal Auditor Brown to help ALC staff in compiling the comparative data since he had expertise in that area, and he asked Mr. Brown to present his Performance Audit Analysis (in file) to the committee.

Mr. Brown explained that Part 1 of the analysis identified lottery peers and that areas of comparison included state population, multi-state offerings, product portfolios, region of the country, and the age of each respective lottery. Part 2 of the analysis discussed possible areas of focus of the performance audit, showing measures for the lottery peers identified in Part 1. Part 3 consisted of a list of possible qualifications of outside firms that might be engaged to perform a performance audit.

Commissioner Scott said that one question lingering from the previous committee meeting was whether or not ALC had the authority to develop an RFQ for the audit and he asked Director Woosley if he had determined if the Bureau of Legislative Audit would have to be involved. Director Woosley responded that he thought that Legislative Audit would have the right of first refusal. He added that he thought they would not want to do it, and if that was the case, ALC would draft the RFP/RFQ and put the performance audit out for bid. Upon evaluation of the proposals [by an ALC evaluation committee], it would come back to the commission for approval, and then it would go to Legislative Oversight for a final review. He added that this was the normal process for a specialized contract.

Commissioner Engstrom stated that in reviewing the Performance Audit Analysis, he noted that ALC differed dramatically from other lotteries in online sales per capita, and he asked if there was an explanation regarding why that was the case. Director Woosley responded that he had a theory that ALC ticket sales slanted toward instant tickets from the very beginning, that is, ALC started with instant tickets and did not introduce a terminal-generated game until the following month. He added that ALC's Players Club began at start-up and for several months *only* instant tickets were redeemable through The Club. Commissioner Engstrom said that he agreed

with Director Woosley about “why,” but said he wanted to know what [ALC] was going to do about it from this point forward. Director Woosley said he would love it if ALC could sell more online tickets. He said that advertising was focused for a brief time on online games, but got no results from the advertising. He added that online games were “jackpot driven,” and one could advertise around the jackpots, but the excitement of playing when there was a large jackpot was what drove sales. Just by virtue of the fact that online games are not the majority of ALC income, dedicating more advertising dollars would be a big risk, considering that instant ticket sales might fall as a result.

Commissioner Engstrom stated that he had made another observation. It appeared that, among ALC’s peer group, ALC was one of the few lotteries showing a decrease in instant ticket sales from FY 2012 to FY 2013. He asked what ALC was doing differently from the other lotteries. Director Woosley said that he had a theory – the newness had worn off and the normal trend was for sales to settle down. He added that ALC had introduced higher-priced instant tickets much earlier than other lotteries, and that ALC had introduced everything within the first 18 months and there was no longer anything to introduce that would generate excitement.

Commissioner Scott said that the reason for the consideration of a performance audit was to take the theory out of the decrease in sales and give ALC management the tools to increase sales.

Commissioner Engstrom stated that he was highly favorable toward the performance audit.

Commissioner Lamberth asked how long it would take to get a performance audit done. Mr. Brown said it would take approximately two to three months if there no complications regarding the Division of Legislative Audit and the ALC Lottery Oversight Committee.

Director Woosley stated that other things complicating the performance audit were a National Premium game that would be launching in November, and if monitor games are approved, they could potentially launch in the fall, and a lot would be required from the staff for the audit.

Commissioner Scott asked Mr. Brown if ALC could request the performance audit to look at county by county, not just comparative lotteries. Mr. Brown said that the performance audit could be tailored. Commissioner Baldrige mentioned regional tailoring, placement of ads, the formula for placement, analysis of the effectiveness of The Club, which is a very expensive part of our operation, and the move toward contract renewals. She added that she would like to know if there could be a professional and objective look at whether or not the Club is worth the expense. Mr. Brown responded that The Club could be added as a possible area of focus.

Commissioner Lamberth asked if there was a ballpark figure for the expense of the performance audit. Mr. Brown stated that North Carolina had paid \$130,000 for theirs. He said that when North Carolina had issued their RFQ, they received three bids ranging from \$42,000 to \$350,000.

Commissioner Frazier said that he hoped the Vendor Committee would move the performance audit out of committee so that the full commission could consider it. He added that the cost would be considered once ALC had received bids. **Commissioner Engstrom made a motion to move consideration of the Performance Audit out of committee, to be considered by the full commission. The motion was seconded by Commissioner Baldrige, and the motion passed unanimously.**

There being no further business, the meeting was adjourned.