

**Oklahoma Lottery Commission  
Minutes of Meeting**

Tuesday, November 8, 2005 – 1:30 p.m.

**Members Present:**

Mr. Orbison, Chairman  
Dr. Dzialo, Secretary  
Mr. Paul  
Ms. Ball

Mr. Charlton  
Mr. Riley, Treasurer

**Member(s) Absent:**

Mr. Norick

**Others Present:**

Jim Scroggins, OLC Executive Director  
Beverly Hughes, OLC  
Rollo Redburn, OLC  
Bobby Stem, G-Tech  
Tony Thornton, The Oklahoman  
Pat Hall, Scientific Games  
Joann Stevensen, AG's Office

Susan Smith, Capitol News Network  
Alicia Emerson, Senate Staff  
Aaron Byrd, OETA  
Allen Blankenship, Scientific Games  
Robert Borge, OETA  
Barbara Hoberoch, Tulsa World

**ITEM 1**

**Call to Order. Roll Call and announcement of quorum**

Roll Call: Ms. Ball, Mr. Charlton, Dr. Dzialo, Mr. Paul, Mr. Riley and Mr. Orbison were present. Mr. Norick was absent. Mr. Orbison declared a quorum.

**ITEM 2**

**Announcement of filing of special meeting notice and posting of the agenda in accordance with the Open Meeting Act**

Posting of Special Meeting Notice and Agenda were confirmed, in accordance with the Open Meetings Act.

**ITEM 3**

**Approval of Minutes of the October 11, 2005 Special Meeting**

Mr. Riley made a motion to approve the minutes of the October 11, 2005 Special Meeting. Dr. Dzialo seconded the motion.

Roll Call: Ms. Ball, Mr. Charlton, Dr. Dzialo, Mr. Paul, Mr. Riley and Mr. Orbison voted to approve. Motion was carried.

**ITEM 4**

**Executive Director's Report**

Mr. Scroggins updated the Board on ticket sales and the number of prizes paid through November 7, 2005. He gave a brief description of four new games to be introduced for the holiday season on or around November 17, 2005. He updated the Board on the number of retailers installed and selling tickets (1,667) and retailers pending installation (21). He stated that the website was being updated to include a "Winner's Page" with photos and information about prize winners. He stated the website would also contain information about the number of prizes remaining in a current game. Dr. Dzialo asked if the \$25,000 lottery winner would be included on the website, and Mr. Scroggins replied that he would.

Mr. Orbison commented that he estimated that since the start-up of ticket sales, almost \$10 million dollars had been raised for education.

Mr. Charlton asked how the promotional sites for the opening day of online ticket sales were chosen. Mr. Scroggins and Ms. Hughes replied that the sites were chosen by the volume of sales and the willingness of the merchant to participate. Mr. Charlton commented that there seemed to be a disproportionate number of sites in Oklahoma City as compared to Tulsa.

Ms. Ball asked what kind of training retailers had been given. Mr. Scroggins replied that retailers had received instruction both during the original classroom training and training on site. They were also given assistance by telephone and through the informational programs on the lottery terminal. Ms. Ball asked if additional "slots" would be available in the acrylic dispenser to hold the holiday games. Mr. Scroggins replied that the dispensers were designed to grow and accommodate add-ons as the number of active games increases.

## ITEM 5

### Discussion and possible approval of the start-up of online sales

Mr. Scroggins stated that everything was in place for the start-up of online game ticket sales on the 10<sup>th</sup> of November. He passed around samples of brochures describing how to play online games, which would be made available to the public in both English and Spanish. He stated that promotional events were scheduled at 40 retail locations across the state, and that radio, newspaper and television ads would start on November 10<sup>th</sup>. He also stated that Fox 25 was planning a "Lottery 101" segment on the evening news that night (11/8).

Mr. Scroggins described the procedures for selecting machines and ball sets, pre-testing, drawing, post-testing and validating drawings. He described the security procedures used to protect the drawing equipment, including a dual lock with keys held by the drawing and security officials. He explained that the drawing audit firm would have personnel present to assure the validity of each drawing. Mr. Scroggins stated that the drawing procedure had been rehearsed the evening before and that additional rehearsals would take place before the first live drawing on the 10<sup>th</sup>.

Mr. Riley stated that he thought the "Online Drawing Procedures" prepared by the Lottery Commission were very thorough, comprehensive and professionally done. He added that the audit firm that was hired to examine internal controls would also review the procedures. Mr. Scroggins stated that procedures had been outlined and scripted in case the drawing was "fouled" and that all drawings were taped to assure the legitimacy of the draw.

Mr. Paul asked how many drawings would be conducted each week, and Mr. Scroggins replied there would be seven drawings (one each day) and that each drawing would result in multiple winners. He stated that there could be times when the dollar amount of prizes paid out on a given day would be greater than the revenue from ticket sales that day, but that over time it would level out to be a payout of about 50% for the lottery. He described a situation in Pennsylvania where the drawing of "777" resulted in a payout of \$37.5 million dollars in one night.

Mr. Charlton asked Mr. Scroggins what percentage of total sales would be expected from online games, and Mr. Scroggins replied that although it was difficult to say what would happen in Oklahoma, in Missouri online games represented approximately 12 to 13 percent of the amount from scratch-off tickets. Mr. Scroggins added that pick-three would help prepare retailers and the public for Powerball in January. Mr. Scroggins stated that the popularity of pick-three games varied by geographical region and that, in general, online games were more popular in the eastern part of the country.

Mr. Paul asked Mr. Scroggins to explain the electronic transactions that occur when an online ticket is purchased. Mr. Scroggins explained how the terminal and satellite dish communicate with the central computer to log, prepare, print and validate online tickets. Mr. Paul asked about the rules for payouts made by retailers, and Mr. Scroggins stated that they would be the same as for scratch-off tickets.

Mr. Orbison asked Mr. Scroggins about equipment he had seen at a trade show that allowed customers to check their ticket to see if it was a winner without the assistance of a sales clerk. Mr. Scroggins stated that he hoped to have this type of equipment available in some locations prior to the start-up of Powerball in January.

Mr. Riley commented that he thought retailer training for online games would be easier because the retailers would already be accustomed to using the terminal for instant games. He said

that he expected that the transaction time would be very quick. He asked Mr. Scroggins if the price per play (\$1) would ever vary. Mr. Scroggins replied that it would not, but that a single ticket could cost up to \$140, depending upon how many types of play were chosen and how many days were marked for play. Mr. Scroggins added that transactions of \$25 or more would have to be confirmed by the clerk prior to printing the ticket, because once the ticket printed, it could not be cancelled.

Mr. Paul asked Mr. Scroggins, based upon his experience, how many active retailers he would expect to have by February 2006 (after the start of Powerball). Mr. Scroggins replied that he thought it would be somewhere around 2500. He stated that the 3500 previously discussed was based on the industry rule-of-thumb of 1 per 1000 population. This figure was derived as an "upper limit" figure to use in RFP's. The number was not intended to be an indication of the actual number of retailers expected. He stated that the budget is not driven by the number of retail stores, but by projections of total sales based on per capita expenditure. Mr. Scroggins stated that the lottery commission was working on a zip-code analysis to check the distribution of retailers throughout the state. With that information, the commission could work on recruiting retailers as needed to fill in any retailer "gaps."

Mr. Paul asked if any additional online games were anticipated to start between November 10<sup>th</sup> and the start of Powerball in January. Mr. Scroggins replied that traditionally no new online games are started between November and January because of the holiday season. A new game might be introduced in the spring or in September after school starts up again.

Mr. Paul asked if Powerball was still on-track to start in January, and Mr. Scroggins replied that it was. He stated that he had received all the information regarding Powerball procedures and rules in the mail this week.

Dr. Dzialo stated that she appreciated Mr. Paul's questions, as they helped her and other Board members to better understand the process. She also thanked Mr. Scroggins for coming to Lawton to speak to a civic group last week. Dr. Dzialo noted that since the last Board meeting (the day before the start of instant ticket sales) nearly \$10 million dollars had been raised for education in Oklahoma.

Mr. Riley made a motion to approve the start of online sales as scheduled on Thursday, November 10, 2005. Mr. Charlton seconded the motion.

Roll Call: Ms. Ball, Mr. Charlton, Dr. Dzialo, Mr. Paul, Mr. Riley and Mr. Orbison voted to approve. Motion was carried.

## **ITEM 6**

### **Report from Interim Committee**

Mr. Paul stated that the committee, composed of Dr. Dzialo, Ms. Ball and himself, met on October 20<sup>th</sup> to discuss and draw up recommendations regarding governance and organization for the Board of Trustees. Mr. Scroggins and Gay Tudor of the AG's office also attended the meeting. Mr. Paul stated that he had sent a memo and a draft of proposed bylaws to each Board member for review. Mr. Paul stated that Gay Tudor had advised that some items, specifically the method for electing officers and terms of officers, had to be promulgated in Rules, rather than just in bylaws (as specified in the Act). Ms. Tudor advised the committee to include these matters in the bylaws, and she would then draft Rules as needed to comply with the Statute. Mr. Paul stated that many items of governance were drafted verbatim from the Act. He stated that it would be desirable to have the bylaws in place for the December meeting so that election of officers for 2006 could be held. Mr. Paul asked that the other Board members look over the proposed bylaws and communicate any thoughts or suggestions to any member of the committee. Some discussion was held regarding convening an executive session at the December meeting to discuss this issue, but Ms. Stevenson advised that this was not an item that could be considered in executive session.

Mr. Orbison complimented the committee on the draft of the bylaws and invited comments from the other Board members. Mr. Riley stated that he had no changes to suggest and would feel comfortable voting to pass the bylaws as presented.

Mr. Paul commented that in drafting the bylaws, all three committee members favored terms of not more than three years for officers. He stated that the committee had also had some concerns regarding the generally accepted principal that the Treasurer should not be part of the audit committee. Mr. Riley stated that the principal of prohibiting the Treasurer from being a member of the

audit committee was correct in a normal business environment where the auditors oversee the Treasurer's work. However, the Treasurer and audit committee have different sorts of functions for the Board of Trustees, so that principal would not apply.

Mr. Orbison stated that he was aware that special attention had also been focused on the subject of committees. He stated that he favored the recommendation of the committee to continue the practice of having just two standing committees, with other ad hoc committees created as needed.

Dr. Dzialo stated that although the bylaws were drafted with three-year term limits for officers, the committee did not intend to recommend that all officers serve for the full three years. Rather, the committee recommended that three years be established as the maximum term of office. Dr. Dzialo remarked that since the bylaws called for officers to be elected prior to the January meeting, an ad hoc committee should be formed to prepare a slate of officers for consideration at the December meeting. Mr. Orbison and Mr. Paul concurred. Mr. Orbison requested that the Interim Committee prepare a slate of officers to present to the Board at the next meeting. Mr. Paul suggested that the Interim Committee meet at the conclusion of the Board meeting to discuss this matter.

## **ITEM 7**

### **Report on Internal Controls**

Mr. Riley reported that the C.P.A. firm hired by OLC was in the process of reviewing the internal control processes established by OLC staff. He stated that a draft of their findings would be reviewed by OLC staff. Tasks specifically being looked at are non-outsourced functions, such as the Claims Center procedures. He stated that procedures would need to be revised once the claim center was moved from its current, temporary location to the permanent location in the offices on the second floor. He stated that review and revision of internal control procedures would be an ongoing process.

Mr. Charlton asked about the risk assessment charts and whether they were set up in accordance with an industry standard. Mr. Riley described some of the procedures and factors considered in determining risk. He stated that some risk factors are common to all enterprises, but that other lottery states had been contacted to see what procedures they were using. Information provided by other states was used to validate Oklahoma risk assessment procedures rather than as a guide on how to establish them.

## **ITEM 8**

### **Report on Accounting and Finance Items**

Mr. Riley reported that he had spoken with OLC staff regarding the requirements for clear, open reporting to the public. Lottery staff was checking to see if the State's accounting system, People Soft, could generate the types of reports necessary. He stated that October and November figures should be available for reporting at the December Board meeting. Mr. Riley asked Mr. Scroggins when the lottery Claims Center would be moved to the upstairs office, and Mr. Scroggins stated it would be at least one more month.

## **ITEM 9**

### **Discussion and Possible Action Regarding Establishment of Regular Meetings for 2006**

Mr. Orbison observed that the bylaws and Statute called for a minimum of four quarterly meetings per year. Mr. Scroggins stated that he favored scheduling quarterly meetings and then scheduling other, special meetings as required.

Mr. Charlton said he felt that, at least during the first full year of operation, the Board should have monthly meetings scheduled. He suggested that some meetings could be cancelled if there wasn't any business to discuss. Mr. Riley agreed that monthly meetings would be desirable during the first year. Discussion was held regarding possible dates to schedule meetings for 2006.

Dr. Dzialo made a motion to schedule monthly meetings for the 4<sup>th</sup> Tuesday of each month for 2006. Mr. Charlton seconded the motion.

Roll Call: Ms. Ball, Mr. Charlton, Dr. Dzialo, Mr. Paul, Mr. Riley and Mr. Orbison voted to approve. Motion was carried.

**ITEM 10**

**Scheduling of Next Special Meeting**

The next Special meeting of the Board is scheduled for December 13, 2005 at 1:30 p.m.

**ITEM 11**

**Adjournment**

Mr. Riley made a motion to adjourn the Board meeting. Ms. Ball seconded the motion.

Roll Call: Ms. Ball, Mr. Charlton, Dr. Dzialo, Mr. Paul, Mr. Riley and Mr. Orbison voted to approve. Motion was carried and the meeting adjourned.

Submitted by:

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Linda Dzialo, Secretary

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James Orbison, Chairman