

Oklahoma Lottery Commission

Minutes of Meeting

Tuesday, October 11, 2005 – 12:00 Noon

Members Present:

Mr. Orbison	Dr. Dzialo
Mr. Paul	Ms. Ball
Mr. Riley	Mr. Norick
Mr. Charlton	

Others Present:

Jason Smith, Capitol Network News	Greg Houston, Dean Houston
Scott Coppenbarger, KWTW	Jim Kennedy, Scientific Games
Darrin Brown, KWTW	Alan Blankenship, Scientific Games
Mark Fryklund, KOCO	Amy Hill, Scientific Games
Darren Brown, KWTW	Pat McHugh, Scientific Games
Tony Thornton, OPUBCO	Janice Francis-Smith, Journal Record
Rhonda Hooper, Jordan & Associates	Marc Dillard, KFOR-TV
Houston Hunt, Jordan & Associates	Bobby Stem, Scientific Games

ITEM 1

Call to Order. Roll Call and announcement of quorum

Roll Call: Ms. Ball, Mr. Charlton, Dr. Dzialo, Mr. Norick, Mr. Paul, Mr. Riley, and Mr. Orbison present. 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 Meeting Act.

ITEM 3

Approval of Minutes of the October 5, 2005 Special Meeting

Mr. Paul made a motion to approve the Minutes with one grammatical correction on page 3. Mr. Riley seconded the motion.

Roll call: Mr. Charlton, Mr. Paul, Mr. Riley and Mr. Orbison voted to approve. Ms. Ball, Dr. Dzialo, and Mr. Norick abstained. Minutes were approved.

ITEM 4

Executive Director's Report

Mr. Scroggins reported that 1,875 applications had been received to date. Of those, 1,477 had been approved and 1,177 had been installed. He anticipated that approximately thirty (30) more installations would be completed by the end of the day, bringing the total to 1200 retail locations ready to begin ticket sales tomorrow (10/12). He stated that 25-50 applications were still being received daily and that at least one retailer had been contracted in each county in Oklahoma, except for Latimer County, which has an application pending. He announced that a list of retailers could be viewed on the OLC website and that the list could be sorted and viewed by location or vendor name.

Mr. Scroggins passed out some information derived from a 1997 study conducted by the National Association of Convenience Stores pertaining to the buying habits of customers

purchasing lottery tickets as opposed to those not purchasing lottery tickets. He also commented that he had e-mailed each Board member a list of locations where radio stations planned to do live, remote broadcasts on Wednesday the 12th (Lottery Sales Kick-off).

Mr. Scroggins noted that a press conference was scheduled at 2:00 for the Governor to conduct a ceremonial sale of the first Oklahoma Lottery ticket to Oklahoma's Teacher of the Year.

ITEM 5

Interim Committee of Operations and Structure Report – William Paul

At Mr. Paul's request, this item was deferred to the end of the agenda, following item #8.

ITEM 6

Discussion and possible action on Requests for Proposals for development of internal controls

Mr. Riley reported that the internal controls were near completion and would be in place by the close of business today (10/11).

He stated that he had received a proposal from John Arledge and Associates to assess internal controls. The proposed assessment would be in at least two phases. The first phase would be to assess and make recommendations regarding those areas of operation not outsourced to other vendors (such as Scientific Games). Outside vendors are required to submit SAS 70 reports on their internal controls. Phase One would also assess other aspects of operations such as scratch off tickets, online games, etc. The Phase One report would be due approximately October 31st. Phase Two would be conducted at a later time and would involve assessment of the SAS 70 reports of outside vendors. He stated that the Arledge and Associates' proposal estimated work for Phase One would take approximately 50 to 60 hours, at rates ranging between \$50 to \$120 per hour (depending on training and expertise of staff member conducting the specific aspect of the assessment) for a total cost not exceeding \$10,000. Mr. Norick asked about the cost, as it was considerably less than an earlier estimate of \$225,000. Mr. Riley explained that OLC staff, specifically Carl Selby and Stan Ostran, had been instrumental in developing internal controls and had thus saved a great deal of money for OLC. Thanks to their work, Arledge and Associates would not have to actually develop the internal controls, but would only have to confirm that internal controls had been properly set up. He stated that Mr. Selby would continually monitor and test controls to be sure they are operating properly.

Mr. Orbison commended the OLC internal auditor (Carl Selby), Comptroller (Stan Ostran), and Mr. Riley for their work on internal controls and for getting them in place prior to the start of ticket sales. Mr. Riley also commended Mr. Selby and Mr. Ostran for conducting a comprehensive business risk analysis on approximately 60 to 75 internal processes, assessing them for risk level and assigning various levels of internal controls based on risk level.

Mr. Orbison stated that he thought John Arledge and Associates was a firm with a good reputation and reasonable rates. Dr. Dzialo added her commendation of Mr. Riley and the work he has done on internal controls, and other Board members concurred.

Mr. Riley made a Motion for the Board to engage Arledge and Associates to perform a Phase One assessment of Internal Controls. Mr. Norick seconded the motion.

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

ITEM 7

Discussion and Possible Approval of the Start-up of Ticket Sales

Mr. Scroggins reported that everything was in place to begin ticket sales tomorrow morning (10/12). He expressed his thanks to the Governor, Board members, Scientific Games, Jordan and Associates, DCS, and Gay Tudor and David Kinney of the Attorney General's office. He also expressed special thanks to OLC staff members Beverly Hughes, Jerry Havener, and Rollo Redburn.

Mr. Paul asked Mr. Scroggins what time lottery ticket sales would commence on the twelfth, and Mr. Scroggins replied 5:00 a.m. Mr. Paul added his thanks to the people and organizations named by Mr. Scroggins. He stated that the Oklahoma Lottery start-up was a truly historic event, as it was the fastest lottery start-up in U.S. history. He commended his fellow Board members and Mr. Scroggins for the amazing quantity and quality of work produced by him and his staff. He also added special thanks to Mr. Riley for the work and expertise he provided in the areas of budget, cash flow, financial controls, etc. Mr. Paul stated that he felt Oklahomans could be proud of the work accomplished in starting the lottery so quickly.

Ms. Ball stated that Oklahoma educators were hopeful, optimistic, and appreciative of the help that the Lottery would give to Oklahoma schools. Dr. Dzialo commented that as "Sooners," Oklahoma had achieved the lottery start-up "sooner" than anyone else in the United States.

Mr. Norick said he felt that it had been a good decision to hire Mr. Scroggins and that Mr. Scroggins had put together an excellent staff. He stated he was very pleased with the number of retailers who were ready to begin ticket sales and complimented Mr. Scroggins and his staff on doing a phenomenal job on start-up.

Mr. Orbison stated that the logistics of lottery start-up were mind boggling, and he praised Scientific Games for the work they have done.

Ms. Ball stated that she could not understand some of the negative comments being made and felt people should be aware of the great accomplishment of starting the lottery in such a short time. Mr. Charlton commented that revenue was greatly enhanced by rapid start-up.

Mr. Paul added special thanks to the Attorney General's office, and especially to Gay Tudor and David Kinney, for their help with the lottery start-up.

Mr. Norick made a motion to begin ticket sales on October 12, 2005 @ 5:00 a.m. Mr. Riley seconded the motion.

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

ITEM 8

Discussion, consideration and possible action on Emergency Rules

Mr. Scroggins reported that the Rules passed last week had been approved and signed by the Governor and were in place for the start-up of ticket sales.

At Dr. Dzialo's request, the Board was asked to discuss the issue of the exclusion of some types of retailers from selling lottery tickets. She stated that she felt it was important to amend the Emergency Rules to contain the exclusions. Mr. Riley made a motion to amend the Rules to include the following language (read aloud by Mr. Charlton):

"It is the intent of OLC that contracting with supervised lenders (type A and B), pawnshops, payday lenders, deferred deposit lenders and businesses whose primary business is categorized as a check casher for the sale of OLC products is not in the best interest of

OLC and the State, thus applications from such businesses to become an OLC retailer will not be accepted or approved by OLC.”

Mr. Charlton seconded the motion.

Mr. Paul stated that he supported the Motion. He stated that at the last Board meeting when this issue arose, only four Board members had been present. Of those four Board members, three (Mr. Paul, Mr. Orbison, and Mr. Riley) had decided not to make a decision on the merits whether or not to allow these types of retailers, but rather had decided to vote to pass the Emergency Rules without the exclusion until such time as this important issue could be further investigated and evaluated by the Board. The fourth member present, Mr. Charlton, felt strongly that the exclusion language should be included and voted “no” on the Emergency Rules adoption. Mr. Paul stated that the other three Board members had wished to receive input from the full Board, as well as from other sources, such as the Governor, the Legislature, etc. before making a final decision. He stated that the Board had received a great deal of input and reaction over the last week. The overwhelming opinion expressed was that these retailers should be excluded. He added that excluding these retailers would not prevent anyone from buying tickets, but rather would control the environment in which tickets were sold.

Mr. Charlton expressed his thanks to all the Board members for reconsidering the issue and “doing the right thing.” He stated that he believed educators would appreciate their action and understand that revenue should not be made at any cost.

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

Mr. Orbison reiterated Mr. Paul’s comments that the Board had not voted to include these retailers, but rather had wished to have more time for deliberation and input. The Board had now voted unanimously to amend the Rules to exclude these retailers, but that vote did not represent a change of mind on the issue.

ITEM 5 (Considered out of listed order)

Interim Committee of Operations and Structure Report – William Paul

At Mr. Paul’s request, Item 5 was moved to the end of the meeting.

Mr. Paul reported that the Interim Committee of Operations, comprised of Mr. Riley, Dr. Dzialo, Ms. Ball, and himself, was currently addressing the issue of the structure for internal governance of the Board of Trustees.

Mr. Paul asked Gay Tudor, of the Attorney General’s Office, whether the Board needed to set up formal rules, or whether this issue could be addressed through bylaws or policies. Ms. Tudor stated that formal rules requiring approval by the Governor or Legislature would not be necessary to establish internal operations procedures for the Board.

Mr. Paul reviewed the outline of issues he had previously presented to the Board members. He asked Ms. Tudor if the Board was required to designate a principle office or registered office, and Ms. Tudor replied that a registered office was not required. Mr. Paul reviewed the requirements of the Statute regarding officers for the Board of Trustees. Mr. Paul suggested that officers be elected each December to serve during the succeeding calendar year. Dr. Dzialo suggested that the Board should also consider whether there should be any limits placed on terms of office. Mr. Scroggins added that the Statute provides that the Chairman appoint a ten-member advisory committee of retailers, and suggested this should be done at some date in the future when the retailer base has stabilized. Other items were briefly discussed and Mr. Orbison made the suggestion that the committee meet to discuss other issues and then present their

recommendations to the Board. Mr. Paul stated that many items normally found in corporate bylaws were contained in the Act, so there would be no need to duplicate work on those items. Mr. Paul pointed out that since the committee was comprised of four members, it would be necessary to post the meeting and hold it in a public place, in accordance with all the requirements of the Open Meeting Act. He suggested that when committees are created, it might be better to have three member committees that could meet, discuss, and make recommendations to the full Board without the necessity of public meetings with published notice, agenda, etc.

Mr. Norick agreed that since a committee would not be making any formal decisions, a three-member committee was a good idea. It was decided that the Interim Committee should be reduced from four members to three (Mr. Paul, Dr. Dzialo, and Cindy Ball, with Mr. Riley voluntarily withdrawing) and would meet in person or by teleconference to draft policy recommendations to present for the Board's consideration at the November meeting.

ITEM 9

Scheduling of Next Special Meeting

Mr. Orbison stated that the next special Board meeting was scheduled for November 8, 2005 at 1:30 p.m. In discussion, Board members concluded that they did not see any reason to schedule an additional meeting prior to that date at this point.

ITEM 10

Adjournment.

Mr. Charlton made a motion to adjourn the meeting. Dr. Dzialo seconded the motion.

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

Submitted by:

Linda Dzialo

James Orbison, Chairman