

Oklahoma Lottery Commission

Minutes of Regular Meeting

November 21, 2006 – 1:30 p.m.

Members Present:

Mr. Orbison, Chairman
Mr. Norick, Vice-Chairman
Mr. Riley, Treasurer

Mr. Paul
Mr. Charlton (arrived approximately 1:45)

Members Absent:

Dr. Dzialo
Ms. Ball

Others Present:

Jim Scroggins, OLC
Rollo Redburn, OLC
Penny Nicholson, OLC
Mary Wills, SGI
Allen Blankenship SGI
Tony Hutchison, Acting Director, OSF
Jill Geiger, OSF
Susan Christian, OLC
Carl Selby, OLC
Gay Tudor, AG's Office
Angel Riggs, Tulsa World

Bonnie Presley, OLC
Almatene Byrd, OLC
Mary Hurley, OLC
Kimberly Lohman, Channel 5
Charles Shepherd, Channel 5
Megan Densow, OLC
Amber Theinert, Capitol Network News
Ron Jenkins, AP
Susan Christian, OLC
Tony Thornton, The Oklahoman

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley, and Mr. Paul were present. Mr. Charlton had not yet arrived at the time of roll call, but arrived at approximately 1:45. Dr. Dzialo and Ms. Ball were absent. Mr. Orbison declared a quorum.

ITEM 2

Announcement of Filing of Regular Meeting Notice and Posting of the Agenda in Accordance With the Open Meeting Act

Posting of Regular Meeting Notice and posting of the agenda were confirmed, in accordance with the Open Meetings Act.

ITEM 3

Approval of Minutes of the September 19, 2006 Regular Meeting

Mr. Riley made a motion to approve the minutes of the September 19, 2006 meeting. Mr. Norick seconded the motion.

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley and Mr. Paul voted to approve the minutes (Mr. Charlton had not yet arrived). The minutes were approved.

ITEM 4

Executive Director's Report

Mr. Scroggins stated that employees of the OLC had been invited and encouraged to attend a meeting of the Board as their schedules permitted, and pointed out that several members of the OLC staff were present in the audience.

Mr. Scroggins noted that the photographs of the members of the Board of Trustees had been framed and hung in the OLC Boardroom.

Mr. Scroggins stated that he had received a copy of correspondence from Mr. Norick to the Governor announcing his decision to resign his position with the Board effective at the close of today's meeting. Mr. Scroggins recalled that Mr. Norick had been a member of the committee that initially

interviewed and selected him for the position of Executive Director. He stated that although he understood that other commitments prompted Mr. Norick's decision to resign, he and the other Board members would be saddened to see him leave.

Mr. Norick addressed the Board and audience members stating that he appreciated having had the opportunity to be a part of the start-up of the Oklahoma Lottery. He gave assurances that he was not leaving the Board due to any problems with the Board or the Lottery, but to the contrary, he was comfortable resigning at this time because the Lottery was up and running so smoothly. He complimented Mr. Scroggins and the Lottery staff for accomplishing a rapid and successful start-up.

Mr. Orbison, Mr. Riley, Mr. Charlton and Mr. Paul expressed their thanks for Mr. Norick's service on the Lottery Board, and particularly for heading the search committee that selected Mr. Scroggins as Executive Director. They agreed that the Lottery was running smoothly, due in large part to the excellent leadership provided by Mr. Scroggins. Mr. Orbison presented Mr. Norick with a plaque in appreciation for his service on the Lottery Commission Board of Trustees.

Mr. Scroggins distributed copies of a brochure with details of the Anniversary Raffle game promotion. He stated that in the first ten days of the promotion, 27,000 tickets were sold, with approximately 5,500 entries submitted for the drawing for the Victory motorcycle. He stated that the last day of sales would be January 6, with prize drawings taking place at the International Finals Rodeo in Oklahoma City on January 20, 2007. He stated that a total of 303 prizes would be awarded, including a \$250,000 grand prize, and a custom painted Victory Vegas Jackpot motorcycle.

Mr. Scroggins distributed a copy of a brochure detailing the holiday-themed instant games and described a special retailer promotion called "Great Gift Ideas." During this promotion, each time a retailer activates a pack of holiday scratch-off tickets he or she will receive an entry for a drawing for cash and merchandise prizes.

Mr. Scroggins briefly reported on sales and stated that Cash 5 sales have been enhanced by the fact that there were two grand-prize winners within the same week a couple of weeks ago. He reported the Powerball jackpot was currently up to \$54 million.

Mr. Scroggins distributed a chart showing figures on high tier prize winners and pointed out that Oklahoma has had 142 individual winners of \$10,000 or more. Mr. Scroggins also provided a list of unclaimed prizes, which currently contains only two sizeable prizes. He explained that the Lottery Commission sends out press releases two to three weeks prior to the expiration date of unclaimed prizes to remind players to check their tickets. This practice has been quite successful in reducing the number of unclaimed prizes on the list. Mr. Norick asked about the \$400,000 unclaimed prize on the list given out at the prior Board meeting, and Mr. Scroggins replied that the winner had come forward one day before the expiration of the prize.

Mr. Scroggins reported that for FY-07 to date, \$27.5 million have been transferred to the Oklahoma Lottery Education Trust Fund.

Mr. Scroggins stated that the required Public Hearing on proposed changes to the Rules was held last Friday at 10:00 a.m. and no members of the public had attended. He stated that the next step is to put the changes into the required format and submit them to the Board for formal adoption at the December meeting. After that, they will be sent to the Legislature and Governor for review and approval.

Mr. Scroggins reported that the Retailer Advisory Board has held its first meeting and will meet again on December 13, 2006 at 11:00 a.m. at the Lottery Commission office. He invited Board members to attend, if they wished.

Mr. Scroggins advised the Board that plans for minority outreach training through CareerTech are proceeding. He stated that Mary Martha Hall, the OLC Retail Manager, will "train the trainers," who will then conduct training at the twenty-seven (27) CareerTech locations around the state.

Mr. Scroggins reported that the National Association of State and Provincial Lotteries (NASPL) and the World Lottery Association (WLA), in conjunction with the major lottery vendors, such as Scientific Games and G-Tech, are working to develop a Global Best Practices RFP Format. He stated that this standardized RFP format is designed to control expenses, speed up procedures and ultimately to minimize lawsuits associated with the RFP process. He informed the Board that he had submitted a copy of the proposed procedures to John Richard, the Director of Central Services, for review and comment.

Mr. Richard responded with several comments which Mr. Scroggins forwarded to the NASPL/WLA associations for consideration.

Mr. Scroggins concluded his report and suggested that Item 9, "Presentation from the Office of State Finance Regarding Distribution and Utilization of Lottery Net Revenue for Education" be considered next for the convenience of OSF personnel and members of the press. Mr. Orbison agreed. Mr. Scroggins introduced Tony Hutchison, Acting Director of OSF and Jill Geiger, OSF Budget Analyst and invited them to begin their presentation.

ITEM 9 (considered out of order)

Presentation from the Office of State Finance (Tony Hutchison, Acting Director of State Finance) Regarding Distribution and Utilization of Lottery Net Revenue for Education

Mr. Hutchison presented a PowerPoint program explaining Lottery revenue allocation, usage, appropriations, school funding, etc. He also explained the importance of the anti-supplanting portion of the Lottery Education Act and described the duty of the Board of Equalization (BOE, comprised of the Governor, Lt. Governor, Attorney General, State Treasurer, State Superintendent of Public Instruction, President of the State Board of Agriculture, and the State Auditor and Inspector) to certify that Lottery funds do not supplant other State education funds. Except for the President of the State Board of Agriculture, all members of the BOE are elected officials. The BOE meets in open forums which are well attended by the public and the press, providing excellent, open accountability to the citizens of Oklahoma. Mr. Hutchison gave a brief summary of the requirements of the Lottery Act, which specifies how Lottery funds are allocated and how they may be spent. He noted that the Act provides strong safeguards against the misuse of Lottery funds. He also presented an overview of the entire State budget, as well as details of State, Federal, and local school funding sources. He explained the State funding formula, which is designed to provide equitable student funding throughout the State. A copy of Mr. Hutchison's PowerPoint presentation is attached to these minutes.

Mr. Scroggins thanked Mr. Hutchison for his presentation and commented that in the last fiscal year Lottery funds actually comprised only about 1.8% of the total education budget. Mr. Hutchison concurred, stating that Lottery proceeds represent a small but important portion of the overall education budget. Mr. Paul asked if local school districts have any individual discretion on how lottery funds are spent, and Mr. Hutchison replied that they did not, as this is determined by the Legislature. The Trustees asked for specific examples of how the Lottery funds have been used. Mr. Hutchison replied that among other things, Lottery proceeds funded a substantial portion of the teacher salary increase and provided debt service for higher education's capitol improvement bonds.

Mr. Hutchison and the members of the Board agreed that it is important to provide information to the public about where Lottery funds are going and how they are being utilized. He stated that his office would make a special point of communicating this information to the Lottery Board in the future. Mr. Orbison thanked Mr. Hutchison and Ms. Geiger for the presentation. He stated that it was very helpful to the Board's understanding of the entire education budgeting process.

ITEM 5

Discussion and Possible Action Regarding Establishment of Regular Meetings for 2007

Board members discussed meeting dates for calendar year 2007 and agreed to establish regular, quarterly meetings with special meetings scheduled as needed. Mr. Paul asked Ms. Tudor to clarify the procedural differences between regular meetings and special meetings. Ms. Tudor stated that special meetings require forty-eight (48) hours prior notice and no items can be addressed as "New Business." The Board would be confined to discussing only items appearing on the agenda. Mr. Paul also recalled that the Board's by-laws allow special meetings to be called either by the Chairman or by two members of the Board. Mr. Scroggins added that any two members could also request that an item to be added to the agenda.

Mr. Paul made a motion to establish regular meeting dates on March 20, 2007, June 26, 2007, September 18, 2007 and December 18, 2007. Mr. Charlton seconded the motion.

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley, Mr. Charlton and Mr. Paul voted to approve the meeting dates and the motion was carried.

ITEM 6

Discussion and Possible Action Regarding Trusts as Prize Winners

Mr. Scroggins stated that he had asked that this issue be placed on the agenda to allow Trustees to discuss some questions that arose when two, large-jackpot prizes were claimed by blind trusts. Mr. Scroggins told the Board that he wished to clarify that a story published in the local media misquoted him as saying that blind trusts claiming prizes were "bad for marketing." He stated that he did not make that comment and did not agree with it. He added that he had told reporters that the Lottery Act, as it is currently written, allows trusts to claim prizes, and that if or when the law changed the Lottery Commission would follow the law as written.

Mr. Scroggins distributed copies of a NASPL survey of U.S. lotteries asking whether or not they allowed trusts to claim lottery prizes. He pointed out that the survey indicated that 34 of 40 jurisdictions responding allowed prizes to be claimed by blind trusts. Two of the six states that did not allow prizes to be claimed by blind trusts did allow them to be claimed by regular trusts. Mr. Scroggins stated that some State Legislators had given indications that they might introduce legislation prohibiting trusts from claiming prizes. Mr. Scroggins recommended that the Board refrain from taking a position on the issue at this time, but instead refer specific legislation, if filed, to the Government and Citizens Relations Committee for examination and recommendations to the Board. Mr. Paul asked Ms. Tudor if the Board had the authority to address the issue of trusts in Rules, if they so desired. Ms. Tudor stated that absent a change in the Statute, it was her opinion the Board could not promulgate a Rule that would change or alter the status of trusts as legal prize-winning entities. Mr. Charlton asked Mr. Scroggins if revenue would be affected in any way, either positively or negatively, by this issue, and Mr. Scroggins replied that revenue would be unaffected. Mr. Scroggins added that in his personal experience large-prize winners were frequently harassed by people and charities wanting a portion of their winnings. He added that he could understand why winners might also be motivated to set up a blind trust by a desire to protect their family members by keeping their winnings anonymous. However, he reiterated that the Lottery Commission would follow the law, whatever it was. Mr. Paul asked if there was a means by which the beneficiaries of a blind trust could be checked for unpaid taxes or back child support. Mr. Scroggins said there was not. He suggested that one possible compromise solution might be to allow a very limited number of people (such as himself and Mr. Redburn) to have access to the names of the members of the trust in order to check for unpaid taxes and child support, etc. He added that if that solution was tried, it would be necessary to clarify that the information obtained would not be subject to the Open Records Act or Freedom of Information Act. Mr. Paul suggested another possible compromise solution would be to have a representative of the trust certify that none of the beneficiaries were employees of the lottery commission and that no back taxes or child support were owed. Mr. Charlton stated that he felt the key issue was transparency, and that it was important that citizens of the State feel comfortable that all lottery winners have paid their taxes and child support and were not otherwise disqualified from winning the lottery.

The Trustees concluded discussion by stating that they would not further consider this issue unless or until it became the subject of proposed legislation. If that occurs, the matter will be referred to the Government and Citizens Relation Committee to review and make recommendations to the Board.

Mr. Riley made a motion that the Board delegate *all* lottery related legislation in the upcoming Legislative Session to the Government and Citizens Relations committee for review. Mr. Paul seconded the motion.

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley, Mr. Charlton and Mr. Paul voted to approve and the motion was carried.

ITEM 7

Discussion and Possible Action Regarding a Nominating Committee for Calendar 2007 Board of Trustees Officers

Mr. Scroggins proposed that per Section 5.5 of the Bylaws of the Board of Trustees, Chairman Orbison, with the approval of the Board, appoint a special committee to nominate a slate of officers for 2007 to be considered for approval at the December 19, 2006 Board meeting. Mr. Orbison stated that, subject to Board approval, he would appoint a nominating committee consisting of Mr. Paul as Chairman, and Dr. Dzialo and Ms. Ball as members.

Mr. Riley made a motion to approve the nominating committee as proposed by Mr. Orbison. Mr. Charlton seconded the motion.

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley, Mr. Charlton and Mr. Paul voted to approve and the motion was carried.

ITEM 8

Report of Audit and Finance Committee (Mr. Paul)

Mr. Paul reported that the Audit and Finance Committee had met 11:00 that morning, along with Carl Selby, OLC Internal Auditor; Stan Van Ostran, Comptroller; Rich Sanchez of the OLC accounting department; and Rollo Redburn, OLC Director of Administration.

The committee examined various issues, including the latest quarterly audit reports, internal control procedures, the audit plan for calendar year 2007, the charter for the internal auditor for 2007, and the committee meeting schedule for 2007.

At the meeting Carl Selby stated that he had contacted other States' lotteries and found the Oklahoma audits compared very favorably in terms of scope, number of audits conducted, subject matter, etc.

The Committee reviewed the September and October 2006 financial reports with Stan Van Ostran, and reviewed the FY-07 transfers made to the Oklahoma Education Lottery Trust Fund. They discussed plans to purchase some new accounting software at an estimated cost of \$5,000 to \$6,000.

The committee discussed preparing a Comprehensive Annual Financial Report (CAFR) in FY-2007. A CAFR is a governmental audit report that is not required by law, but adds credibility and accountability to the Lottery's financial reporting. The committee decided that such a report would be worth the additional expense and effort required. Mr. Scroggins agreed it is a very worthwhile report and added that after the first year, succeeding years' reports would be less difficult. He stated that this report was also quite useful when dealing with Legislative issues.

Mr. Riley added that the Committee had also reviewed the cost-effectiveness of contracting with OSF for HR and payroll services and affirmed that it was a sound, money-saving decision.

The committee agreed to meet on December 19, 2006 at 11:00 a.m. to discuss a specific audit plan for calendar year 2007 and to review the Charter of the Internal Auditor to see if any changes need to be made

Mr. Paul announced that for 2007 the Committee planned to continue the practice of meeting at 11:00 a.m. on the same days as regularly scheduled Board meetings.

ITEM 10

Discussion and Possible Action Regarding Distribution and Utilization of Lottery Net Revenue for Education

Mr. Orbison noted that this agenda item was intended as a follow-up to Item 9. He and Mr. Paul agreed that it had been sufficiently covered during discussion of Item 9 of the agenda.

ITEM 11

New Business

There were no items of new business, but Mr. Paul asked to be allowed to make some informal comments to the Board.

Mr. Paul stated that he had heard a report on the radio that morning regarding a scam related to unclaimed lottery prizes. Mr. Scroggins stated that, unfortunately, lottery scams are not uncommon, with the most common type being the "pigeon drop." In this type of scam, the scammer tells the victim he has a winning ticket but cannot cash it for one reason or another. He then offers to sell the "winning ticket" to the victim for a fraction of the prize amount. Mr. Scroggins stated that OLC keeps a close watch for scams of all types and posts alerts on the OLC website to warn the public.

Mr. Paul commented that he found the October NASPL convention in Chicago, which he and Mr. Charlton attended, to be extremely educational and beneficial. He stated that there were many excellent programs, and that it was evident that Mr. Scroggins and Ms. Hughes were well-known and well-liked by everyone in the Lottery industry.

Mr. Scroggins commented that the Oklahoma Lottery had received a "Batchy" award for excellence in television, radio, and print advertising, which confirms the excellent work being done for the Lottery by Jordan Associates. Mr. Scroggins stated that the next convention is scheduled to be held in conjunction with the World Lottery Association and will be international in scope. The convention is scheduled for October 3, 4, and 5, 2007 in Louisville, Kentucky. He encouraged Board members to attend all or part of the convention, if their schedules permitted.

Mr. Paul asked about the possibility of Oklahoma hosting a future convention, and Mr. Scroggins replied that OLC had put in a bid to host in 2009. Arizona also made a bid for the 2009 convention. He stated that David Gale, the Executive Director of NASPL, will visit Phoenix and Oklahoma City sometime after the first of the year to meet with lottery officials as well as local tourism boards, convention centers and hotels before making a decision on the 2009 site. He stated that if Oklahoma is selected to host the convention, it will bring an estimated \$3.4 to \$4 million into the State's economy.

ITEM 12

Adjournment

Mr. Charlton made a motion to adjourn the meeting, and Mr. Norick seconded the motion.

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley, Mr. Charlton and Mr. Paul voted to approve and the meeting was adjourned.

Submitted by:

James Orbison, Chairman

George Charlton, Acting Secretary