

Minutes of the Lottery Advisory Commission  
March 6, 2012

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 2:07 p.m. – 3:11 p.m., on Tuesday, March 6, 2012. Representing the Commission were Mr. Mike Rud (Chairman) and Mr. Laurel Thoreson. Senator Lonnie Laffen, Representative Dwight Wrangham, and Representative Lois Delmore participated by telephone. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Ms. Tasha Gerding accountant/budget specialist, Ms. Kassondra Keller, sales and marketing manager, Ms. Julie Thompson, security officer, Mr. Scott Tarno, customer service specialist, Mr. Ryan Kopyy, customer service specialist, Ms. Missy Reich administrative staff officer, and Ms. Sonja Walder, administrative assistant. Also in attendance was Mr. Delan Hellman, financial auditor, Office of the State Auditor, Ms. Leslie Darfler, general manager for North Dakota, Scientific Games International, and Mr. Jess Wright, account development manager, GTECH.

Approval of Minutes

Commissioner Delmore made a motion to approve the minutes of the December 15, 2011 meeting. Commissioner Thoreson seconded the motion. The motion passed 5-0.

Presentation of the Audit Report for the Fiscal Year Ended June 30, 2011

Mr. Hellman provided an overview of the Lottery's audit report for the fiscal years ended June 30, 2011 and 2010. Compliance was found with all statutes, laws, rules, and regulations that were examined and there were no findings. Internal control was found to be adequate and functioning effectively. There were no indications of a lack of efficiency in financial operations or management of the agency. There were no findings or recommendations noted from the prior audit that had to be followed up on. There was one informal recommendation. The Office of the State Auditor recommended the Lottery develop a process to insure that all adjustments entered into the Games Management System are properly approved. This will be followed up on during the next audit. Mr. Miller assured the Commission and the Office of the State Auditor that an internal control process was immediately implemented to address the approval of all adjustments in the Games Management System. Other items noted during the audit included no significant changes in accounting policies, no management conflict of interest, no contingent liabilities identified, and no significant or unusual transactions that were noted. The Lottery's financial statements did not include any significant accounting estimates. During the audit process there were no significant audit adjustments made, no disagreements with management relating to any financial, accounting, or auditing related matters, and no management consultations with other accountants about auditing or accounting matters. There were four high-risk information technology systems identified as critical to operations, including ConnectND Finance, Human Resource Management System, Games Management System, and Internal Control System. Mr. Miller commended all of the Lottery staff for their hard work throughout the fiscal year to make this such a positive report.

Commissioner Delmore made a motion to accept the audit report. Commissioner Thoreson seconded the motion. The motion carried 5-0. Mr. Hellman left the meeting at 2:15 p.m.

## Staff Reports/Updates

### Accounting

Ms. Gerding provided an overview of the quarter ended December 31, 2011. Ticket sales increased \$189,612 or 3.26% and total expenses increased \$66,352 or 1.5% compared to the same period last year. The prize expense, retailer commissions/bonuses, and contractual services expense increased proportionately to the increase in sales. Marketing and operating expenses decreased due to the timing of payments being made to vendors. Ticket sales for January and February 2012 were up \$277,334 or 6.9% compared to the same period last year. Ms. Gerding left the meeting at 2:20 p.m.

### Marketing

Ms. Keller provided an overview of marketing activity. The holiday subscription discount promotion ran the month of December. The promotion offered a discount of up to 10% on a subscription purchase. There were 970 subscriptions sold totaling sales of \$138,807. The holiday subscription discount promotion was very successful.

The Mega Monday promotion is currently running. This is a new promotion for the Lottery running during the months of March and April and only on Mondays. The qualifying purchase is three plays of Mega Millions with Megaplier for only \$5, which is a \$1 discount. This is the first promotion to focus solely on Mega Millions since the game launched in January 2010. The budget for media and point-of-sale is \$35,000. The results of the Mega Monday promotion will be provided at the next meeting.

The 2by2 7-draw promotion is planned to run from June 3 through June 30. The qualifying purchase is a 7-draw 2by2 ticket for \$7. Players have a chance to instantly win another 7-draw 2by2 ticket. Since this is a 7-draw purchase, all prizes won on Tuesday double in value. The budget for media and point-of-sale is \$35,000.

The Lottery plans to issue the Request for Proposals for marketing and advertising services on March 7, 2012. The Lottery intends to enter into a contract with the successful vendor beginning July 1, 2012 through June 30, 2015 with the option of two one-year extensions. The Commission provided consensus to move forward with the issuance of the Request for Proposals. Ms. Keller left the meeting at 2:26 p.m.

### Security

Ms. Thompson provided an overview of the Lottery's lockdown procedures for Powerball, Hot Lotto, and Wild Card 2, along with the results of a recent practice lockdown. Ms. Thompson left the meeting at 2:31 p.m.

### Subscriptions

Ms. Reich provided an overview on subscription sales. Subscription sales for December 2011 and January 2012 were \$139,807 and \$138,758, respectively. Most of these sales were attributed to the \$2 Powerball game change. We currently have 1,424 Powerball subscriptions that are either active or pending. Powerball subscriptions are down approximately 30% compared to the same period last year. Considering the \$2 Powerball game only started on January 15, 2012, the Lottery is pleased with the number of Powerball subscriptions at this time. Ms. Reich left the meeting at 2:35 p.m.

## Retailers

Mr. Tarno provided an update on the retailer sales enhancement pilot program. The pilot program has been running for five months and introduced new point-of-sale items to 14 retailers in Bismarck, Mandan, Dickinson, Jamestown, Valley City, Fargo, and West Fargo. On average, the pilot stores had a 7.7% increase in sales while the total state without the pilot stores had a 3.8% increase in sales. The Lottery will continue to monitor the effectiveness of the pilot program for another month. Store managers will be surveyed for feedback. Evaluation criteria and recommendations will be provided at the next meeting.

Mr. Kopy provided an update on the quicker pix pilot program. The pilot program has been running for four months at retailers in Bismarck, Mandan, and Lincoln. Quicker pix is an easier way for players to play the lottery with nothing to fill out. Players simply choose a game and price point, then take the quicker pix slip to the terminal to purchase their lottery ticket. Quicker pix total sales are \$3,977. The Lottery will continue to monitor the quicker pix pilot program for another two months. Evaluation criteria and recommendations will be provided at the next meeting. Mr. Tarno and Mr. Kopy left the meeting at 2:46 p.m.

## Director

Mr. Miller provided an overview of the \$2 Powerball game since it launched on January 15, 2012. Powerball sales increased 22.3% while Mega Millions sales decreased 6.5%. Total sales combined for Powerball and Mega Millions net increased 16.3%.

Mr. Miller provided an update on online sales of Lottery tickets over the internet based on the US Department of Justice opinion which clarified the Federal Wire Act applied only to sports betting. The interpretation by the US Department of Justice means there are no federal laws prohibiting state lotteries to sell tickets over the internet. The Lottery is not taking any action at this time. This will give North Dakota an opportunity to analyze as other lotteries conduct sales over the internet. The Lottery will revisit at a later date and may consider, based on the Lottery Advisory Commission's recommendation and Attorney General Stenehjem's approval to further explore the selling of tickets over the internet. If the Lottery decides to further explore, we will then conduct retailer and player research, as well as have our Assistant Attorney General determine specifically what changes to our law and rules would be necessary.

Mr. Miller informed the Commission the Lottery will soon begin drafting the Request for Proposals for online gaming system and services. The Lottery plans to issue the Request for Proposals somewhere between March and June of 2013. The current online gaming system and services contract ends March 24, 2014.

Mr. Miller informed the Commission the Administrative Rules Committee will meet on March 14, 2012 in the Harvest Room at the Capitol. Mr. Miller will be present to describe the procedures followed by the Lottery in adopting the rule changes impacted by the price of play for Powerball changing to \$2.

Mr. Miller informed the Commission the Legislative Audit and Fiscal Review Committee will meet on March 27, 2012 in the Roughrider Room at the Capitol. A representative from the Office of the State Auditor will provide an overview of the Lottery's June 30, 2011 and 2010 audit report. Mr. Miller will be present should the Committee have any questions.

Mr. Miller informed the Commission the Judiciary Committee will meet on April 11, 2012 in the Roughrider Room at the Capitol. Mr. Miller will be present to provide an update on the operation of the Lottery.

Mr. Miller will be attending the Multi-State Lottery Association and Powerball meetings in New York City on March 19-20.

Mr. Miller informed the Commission that Tasha Gerding resigned effective March 16. The Lottery will immediately begin advertising for an Accounting/Budget Specialist III.

#### Consideration of Wild Card 2 Proposed Game Changes

Mr. Miller provided an overview of the proposed game matrix the Wild Card 2 Game Group is considering. The base game matrix would be 5 of 33 and 1 of 16. Our current matrix is 5 of 31 and 1 of 16. The jackpot odds would increase from 1 in 1,359,288 to 1 in 1,898,688. The overall odds would increase from 1 in 6.16 to 1 in 6.41. The jackpot would start at \$200,000 instead of the current \$100,000 and four of the eight lower-tier prizes amounts would increase. The match 5 prize would increase from \$5,000 to \$6,000; match 4 prize from \$20 to \$30; match 3 prize from \$5 to \$6; and match 2 + wild card from \$1 to \$2. The projected average jackpot would increase from \$289,286 to \$511,996. Currently the prize pool is 55% of each draw period's sales. The prize pool for the proposed matrix would be 57% of each draw period's sales. The cost would remain two plays for \$1. There is interest from another state to join the Wild Card 2 game.

There is a proposed add-on feature that would cost an additional \$1. The universe would include one joker and four deuces. If the joker was selected, all lower-tier prizes would increase including a \$50,000 match 5 prize. If a deuce was selected, all lower-tier prizes would still increase including a \$12,000 match 5 prize.

The Wild Card 2 Game group is considering re-launching the game on September 9, 2012.

Commissioner Delmore made a motion to recommend to Attorney General Stenehjem to approve the proposed Wild Card 2 game changes. Commissioner Thoreson seconded the motion. The motion passed 5-0.

#### Omnibus Items

No omnibus items.

#### Adjournment

Commissioner Thoreson made a motion to adjourn. Commissioner Delmore seconded the motion. The motion passed 5-0.

Meeting adjourned at 3:11 p.m.