

COLORADO LOTTERY COMMISSION
Minutes of Meeting
August 11, 2004

The Meeting (via videoconference) was called to order by Chair Acree at 9:10 a.m. on August 11, 2004, at the Pueblo Lottery Office. Present in the Pueblo Lottery Office were Chair Micheal Acree; Vice-Chair Timothy Bachicha; Commissioners Stephen Hess, Betty Martinez, and Joan Ringel; Peggy Gordon, Director; Kathy Jump of GTECH Corporation; Dave Howell of Howell Research Group; Marci Bachicha; and members of the Lottery staff. Present in the Denver Lottery Office were Michael Cooke, Executive Director of the Department of Revenue; Tom Kitts, Deputy Director; Michael Santisi, Assistant Deputy Attorney General; Gary Krueger and Brent Voge of the Department of Revenue; Paul Louderman of Karsh and Hagan Communications; Tony Lombard of Scientific Games International, Inc.; Jessica Kirscht of Oberthur Gaming Technology; and members of the Lottery staff.

Chair Acree inquired if there were any comments, additions, or corrections to the Minutes of the Public Hearing on July 14, 2004. There were none. Vice-Chair Bachicha made a motion to approve the Minutes of the Public Hearing on July 14, 2004. The motion was seconded by Commissioner Hess and passed unanimously. Chair Acree inquired if there were any comments from the public. There were none.

Chair Acree inquired if there were any comments, additions, or corrections to the Minutes of the Meeting on July 14, 2004. There were none. Commissioner Martinez made a motion to approve the Minutes of the Meeting on July 14, 2004. The motion was seconded by Commissioner Ringel and passed unanimously. Chair Acree inquired if there were any comments from the public. There were none.

The next Agenda item Chair Acree called for was the Financial Statement (Unaudited) for eleven (11) Months Ended May 31, 2004. At the request of Chair Acree, Debbi Marroney, an accountant with the Lottery's Fiscal staff, reviewed the Financial Statement. Ms. Marroney stated sales for the month ended May 31, 2004 were \$36.6 Million. Scratch sales were \$23.6 Million. Powerball and Powerplay sales were \$6.4 Million and \$2.1 Million, respectively. Lotto and Cash 5 sales were \$3.2 Million and \$1.3 Million, respectively. She reported Administrative Costs for the month of May were at 7.9 percent, compared to the same period of fiscal year 2003 at 8.2 percent. She also reported the prize expense for Scratch games through the month of May 2004 was 64.62% after the write off of scratch games. She reported the total prize expense through the month of May 2004 was 59.14% as compared to the same period of May 2003 at 58.10%. Further comparisons to the same period of fiscal year 2003 showed: 1) distributions have decreased by approximately \$265,000; 2) sales have increased by approximately \$11.5 Million; 3) game costs have increased by approximately \$11.1 Million; 4) operating expenses have decreased by approximately \$125,000; and 5) other revenue has decreased by approximately

\$808,000. She further stated as of May 2004, the Lottery had achieved approximately 104.44% of the total fiscal year-to-date sales goal. Chair Acree inquired if there were any questions or comments from the Commission. Vice-Chair Bachicha had three inquiries: 1) He requested that Ms. Marroney explain what it means to write off a game and drop a dollar amount to the bottom line. She stated at the start of a scratch game, the percentage of the prizes that should be included within that game are known; that percentage is accrued as prize expense as the game continues. At the end of the 180-day claim period, many of the prizes are unclaimed. The liability that has been accrued for those prizes is written off by reducing both the liability and the prize expense, thus increasing net income. 2) Vice-Chair Bachicha inquired why distributions decreased approximately \$15,000 last month as compared to the current month at \$264,000. Ms. Marroney stated operating expenses last month had decreased approximately \$325,000, which has now dropped to approximately \$124,000. Also, other revenue has decreased more than the previous month caused by the Lottery's interest income. She stated interest rates are down this year, and beginning July 1, 2003, the Lottery was mandated by statute to contribute 15 percent of the Lottery's interest income to the general fund; 3) Vice-Chair Bachicha inquired about the distributions on the financial statements-income statement. Ms. Marroney stated there was a discrepancy caused by formulas and rounding of figures; however, that would be corrected.

Chair Acree called for the first "Decision" item, Approval of Prize Structures for Scratch Games presented by Product Manager Lee Burnett. Mr. Burnett stated he had four Scratch Games to present. He reviewed the prize structures for Bee Lucky, Game No. 287, a \$1 game; Triple Luck, Game No. 288, a \$2 game; Lucky Bucks, Game No. 289, a \$5 game; and \$100,000 Luck of the Draw, Game No. 290, a \$10 game. He reviewed game features including prize levels, the prize percentage payout, the number of times a player may win on a ticket, the number of tickets to be ordered, and the projected launch date of each game. Chair Acree inquired if there were any comments from the public. There were none. Commissioner Hess made a motion to approve the prize structures for Bee Lucky, Game No. 287, a \$1 game; Triple Luck, Game No. 288, a \$2 game; Lucky Bucks, Game No. 289, a \$5 game; and \$100,000 Luck of the Draw, Game No. 290, a \$10 game. The motion was seconded by Commissioner Ringel and passed unanimously.

Chair Acree called for the first "Information" item, Liquidated Damages for the month of June 2004 presented by Project Manager Jay Sisson. Mr. Sisson reported that there were no liquidated damages associated to GTECH for the month of June 2004. Chair Acree inquired if there were any comments from the public. There were none.

Chair Acree called for the next "Information" item, Performance Audit Update presented by Deputy Director Tom Kitts. Mr. Kitts stated that he would keep the Commission apprised of when staff plans to meet with the Legislative Audit Committee. An updated performance audit spreadsheet has been included in the Commission packet detailing the status of the 2003

Performance Audit recommendations. The only outstanding recommendations are those that cannot be completed for a variety of reasons, e.g., the computer conversion, retailer or sales compensation to the Lottery's field representatives. Vice-Chair Bachicha inquired about Recommendation #69, which states, "This is vital to the success of CMAC conversion and will involve various sections of the Lottery;" however, nothing is listed under the status. He stated that he would like the current status to be included in that section. Deputy Director Kitts stated he would provide an update on future reports.

Chair Acree called for the next "Information" item, Update on Code of Ethics Training presented by Director Gordon. Director Gordon stated that she would like to take the agenda out of order and apprise the Commission of a couple of other items: 1) She reported the current status of the interviewing and hiring process for the Marketing Manager position. The written/oral examinations have been completed, and staff is in the process of interviewing the top three candidates. She further stated that a decision on the Marketing Manager position would be made by the end of the week of August 16. 2) The Legislative Barbecue is scheduled for Friday, August 27 and suggested the Commission let her know whether or not they would be attending.

Director Gordon next stated that the Code of Ethics is a result of Senate Bill 204. She read from the statute the following: "The Commission is now required to adopt a Rule, a Code of Ethics that shall be binding upon all members, complete training at least once a year on the code and shall further certify on an annual basis that he or she is knowledgeable about the code and has no conflicts of interest prescribed by this section." She stated that she and staff have been working with Professor Dennis Wittmer at the Daniels School of Business of the Denver University. She stated that Professor Wittmer would like to attend the September Commission meeting, introduce himself, give an overview of his background, and communicate electronically with each member of the Commission on their perspective of the ethics training. She stated that the Ethics training is tentatively planned for the fall. Vice-Chair Bachicha inquired about the timeline for adopting the code of ethics. Director Gordon stated that the timeline for adopting the code of ethics would be completed by the end of calendar year 2004.

Chair Acree called for the next "Information" item, Commission Reports. There were none.

Chair Acree called for the next "Information" item, Image Survey presented by Dave Howell of the Howell Research Group. Mr. Howell stated the primary objectives of the annual Image Survey were to assess the awareness and image of the Colorado Lottery as an organization and its contributions to the State of Colorado, and to determine if any changes in awareness and image have occurred since the previous surveys. Mr. Howell stated the same methodology has been used over the past 14 years (random telephone interviews). A sample is selected proportionate to the population throughout the state by the major counties. He

reviewed the overall support for the Colorado Lottery; operation of the Lottery; societal impacts of the Lottery; understanding of the Lottery's purpose; attitudes about the use of Lottery proceeds; awareness and attitudes about Lottery games, state reliance on gambling; attitudes and awareness of Lottery's advertising; knowledge/perceptions about Powerball; and major changes/trends. Chair Acree inquired if there were any questions from the Commission. Commissioner Ringel inquired if the image survey was circulated to staff. Marketing and Communications Manager Lisa Murray responded that the survey is released to marketing staff. Other staff is made aware of the survey at the Commission meeting. Commissioner Hess had the following inquiries: 1) In regard to next year's image survey, has there been any thought given to find out whether or not people think that the Lottery administration is responsive to criticism; 2) Do any of the proceeds distributors conduct their own image surveys; 3) Since the no-call list has become effective, are people more receptive; and 4) What is the cost of the image survey? After discussion, Ms. Murray stated prior to releasing the image survey, a committee of various people review the survey and evaluate the questions and balance that to maintain the basis of the survey not to lose the value of the survey for tracking purposes. She stated that Great Outdoors Colorado has conducted a survey in the past; however, she is not aware if they or other contributors are currently conducting surveys. Mr. Howell stated that there has been a slight increase in the participation rate as a result of the no-call list. The cost of the image survey is approximately \$18,200.

Commissioner Hess made a motion to convene into Executive Session at 10:38 a.m. to discuss computer security issues, CRS 24-6-402(3)(a) III and IV. The motion as seconded by Commissioner Ringel and passed unanimously.

The meeting reconvened at 10:55 a.m.

Chair Acree stated several written reports were included in the Commission packet and inquired if there were any questions from the Commission in regard to the reports. Vice-Chair Bachicha inquired about the media newsclips that were previously included in the Commission packet. Director Gordon stated that the newsclips have been discontinued; however, Media Relations Specialist Todd Greco does track that information and could be available at the next meeting to present a media report. Vice-Chair Bachicha stated that he found the newsclips to be extremely useful.

Vice-Chair Bachicha next inquired about Recommendation #1 a) an annual independent examination of the internal system used to record and track ticket sales. Is this currently being done, or does this relate entirely to the new system? Controller Barb Aggson stated that the implementation date is February 2005 and the recommendation is a result of the new system. The auditors currently track transactions throughout the system during the annual financial audit. Vice-Chair Bachicha inquired as to why the recommendation if it is currently being done. Ms. Aggson responded that this is in addition to the annual audit. Vice-

Chair Bachicha inquired about the cost for the independent review. Ms. Aggson stated that the Lottery is expected to absorb the cost of the independent review.

Vice-Chair Bachicha next inquired about Recommendation #2, "A review of MUSL's audited financial statements for the fiscal year ended June 30, 2003 has been completed, reviewed by auditors from BKD and presented to the Lottery Commission at the April 2004 meeting." Who performs the audit on MUSL's financial statements? Ms. Aggson stated that the Lottery received audited financial statements from MUSL and the review plan was reviewed by BKD to assure that the Lottery was satisfying all of their requirements. She further stated that the Lottery would receive audited financial statements from MUSL in late August or September at which time the Lottery will conduct their review. Vice-Chair Bachicha requested copies of the audited financial statements from MUSL. Also, he would like to receive copies of the procedures that Lottery staff would perform on MUSL's audited financial statements. Ms. Aggson stated that she would provide Vice-Chair Bachicha a copy of the procedures and MUSL audited financial statements upon receipt.

Vice-Chair Bachicha next inquired about the Red Line Crossword update. Operations Manager Rodney Furuto stated that it pertains to an entry statement included on the entry ticket.

Chair Acree inquired if there were any comments from the public. There were none.

Commissioner Martinez made a motion to adjourn the meeting at 11:07 a.m. The motion was seconded by Vice-Chair Bachicha and passed unanimously.

Antoinette A. Lewis
Secretary