



13001 University Avenue
Clive Iowa 50325-8225
www.ialottery.com
515.725.7900

Kim Reynolds · Governor
Adam Gregg · Lt. Governor
Terry Rich · Chief Executive Officer

AGENDA

IOWA LOTTERY BOARD

December 19, 2017
10:30 am

Dial In: 1-866-685-1580
Code: 000 999 0332

- I. Call to Order
 - a. Approval of Agenda
 - b. Approval of Minutes – September 26, 2017
- II. Quarterly Reports
 - a. Financial
 - b. Marketing
 - c. Security
 - d. IT Systems
 - e. External Relations
 - f. Legal
- III. Retailer Compensation Program
- IV. Fiscal Policy Updates
- V. CEO Update
- VI. Adjournment

If you require the assistance of auxiliary aids or services to participate in or attend the meeting because of a disability, please call our ADA coordinator at 515-725-7864, or if you are hearing impaired, call Relay TTY at 1-800-735-2942.

MINUTES

IOWA LOTTERY BOARD

September 26, 2017

10:30 a.m.

The Iowa Lottery Board convened at 10:30 a.m. at Lottery Headquarters in Clive; Board Chairperson Connor Flynn presiding.

Board Members Present:

Connor Flynn; Mary Rathje; Mary Junge (phone); Mike Klappholz (phone).

Board Members Absent:

Mike Fitzgerald.

Lottery Staff Participating:

Terry Rich, CEO; Brenda Nye, VP, Finance; Teri Wood, VP, Marketing; Cam Coppess, VP, Security; Hale Strasser, VP, Systems Operations; Rob Porter, VP, Legal Counsel; David Ranscht, Assistant AG; Deb Bassett, Board Secretary.

Others Present:

Cindy Weber, Iowa Lottery; Michael Conroy, Iowa Lottery; David Berger, Scientific Games; Jason Clayworth, Des Moines Register; Brian Guillaume, Iowa House Democratic Caucus staff; Christin Mechler, Legislative Services Agency; Lee Rouse, WHO-TV.

CALL TO ORDER

Chairperson Flynn called the meeting to order at 10:30 a.m. and roll was taken. There was a quorum. Flynn announced the meeting would be held via teleconference in accordance with Iowa Code section 21.8.

Junge moved to conduct the meeting via teleconference. Rathje seconded. Motion carried unanimously.

APPROVAL OF AGENDA

Rathje moved to approve the agenda for the meeting. Klappholz seconded. Motion carried unanimously.

APPROVAL OF MINUTES

Junge moved to approve the June 27, 2017, board meeting minutes. Klappholz seconded. Motion carried unanimously.

EMPLOYEE RECOGNITION

Rich presented Brenda Nye, Lottery VP, Finance, with the 2017 Powers Award from the North American Association of State and Provincial Lotteries (NASPL). Nye received the award in recognition of her outstanding work in auditing and finance to the Iowa Lottery

QUARTERLY REPORTS

Financial:

Nye presented several financial reports including the final FY17 performance measures and financial statements; the 5-year comparison of the Statement of Revenues, Expenses and Changes in Net Position;

a summary of out-of-state travel for conferences and training; the FY18 July and August financials, and the Lucky for Life Agreed-Upon Procedures Report. FY17 concluded with \$352 million in sales led by record sales of instant-scratch tickets of \$237.6 million. That sales activity generated nearly \$81 million in proceeds.

The Performance Measures through August show that sales are ahead of budget by 15% and that proceeds are ahead of budget by 7%.

Marketing:

Wood gave an update on the summer promotion, Frogger, stating it performed very well. This year's holiday promotion is Secret Santa. The promotion is web-based and players will be able to scan a barcode on their non-winning holiday scratch tickets to enter the promotion from their mobile phone. Wood also stated that preparations have started for the release an RFP for creative services and media services.

Security:

Copess provided a security report for the 3rd quarter, July – September 2017, and discussed the records of contact.

IT:

Strasser gave a report on some of the IT projects. Projects include the upgrade of retailer vending machines; sales force automation improvements; and a mobile app that allows players to check their tickets without going to a retailer.

External Relations:

Porter reported that the external relations team conducted a Facebook live video demonstration related to the rollout of the new kiosks in retail locations. The demo explained to players how to use the new machines. Porter also stated that external relations has also recently produced a video at the Wilson Avenue Hy-Vee in Cedar Rapids.

Legal:

Porter provided an update on the Hot Lotto fraud case involving Eddie Tipton. Porter stated that Tipton was sentenced to up to 25 years in prison as part of a plea agreement in which he admitted responsibility for inserting malicious code into computers at MUSL that allowed him to anticipate the outcome of lottery games across the country. Tipton also admitted that he shared the winning numbers with others that allowed them to claim prizes, including his brother Tommy Tipton. The Tipton brothers agreed to pay \$2.2 million in restitution as part of the plea deal. Robert Rhoades, Eddie's friend, was given probation and a deferred criminal sentence for his part in the fraud case. Rhoades is also required to pay over \$400,000 in restitution to the Wisconsin Lottery.

Rich talked about the efforts by many people that helped bring the investigation to a conclusion.

Porter informed the Board that the Lottery had inadvertently released the social security numbers of some prize winners from 2011. The error occurred in response to a journalist's request for public record information for lottery winners from 1985 to present. The data provided to the requestor, which included the sensitive information, was published to a website and pulled down 10 days later at the request of the Iowa Lottery. It was not immediately clear that the spreadsheet contained social security numbers and the data was in an unrecognizable abbreviation until the tab was manipulated. The Lottery is in the process of notifying the 2,967 prize winners from 2011 who were impacted by the error to offer access to credit monitoring.

There was discussion about the inadvertent release of the sensitive data and the steps the Lottery is taking to address the issue.

Rathje moved to approve the Quarterly Reports. Junge seconded. Motion carried unanimously.

PULL-TAB PRINTING RFP

Porter provided information related to the pull-tab ticket printing RFP and asked the Board to give approval for the Lottery to issue a notice of intent to award the RFP for the printing of pull tab tickets to American Games and enter into an agreement with American Games for the services and terms set forth in the RFP.

Klappholz moved to approve the pull tab printing RFP. Junge seconded. Motion carried unanimously.

INSTANT TICKET PRINTING CONTRACT EXTENSIONS

Porter provided information related to instant-ticket printing and related services for an RFP issued in 2012. Three vendors were awarded the contract: International Game Technology (IGT), Pollard Banknote Limited and Scientific Games International (SGI).

Porter requested Board approval to exercise the fourth and final contract extension for each vendor contract through December 31, 2018.

Rathje moved to approve the contract extensions. Junge seconded. Motion carried unanimously.

FY19 BUDGET

Nye provided the FY19 updated budget for approval. Sales are budgeted at \$337.3 million. Proceeds are budgeted at \$71.1 million. Both the sales and proceeds budgets are more than is budgeted for FY 2018. The FY 2019 budget back to the Board in June for final modifications needed for salary and benefit changes.

Nye asked the Board to approve the FY 2019 proposed budget.

Junge moved to approve the FY19 budget. Klappholz seconded. Motion carried unanimously.

FISCAL POLICY UPDATES

Nye informed the Board that a new policy, 210.103, effective Jul 31, 2017, sets that employees are normally eligible for meal reimbursements only in conjunction with an overnight stay and allows for certain exceptions to the general policy. Other policies provided in the board packet make modifications to align them with DAS policy.

Nye asked the Board to approve the fiscal policies included in the packet.

Rathje moved to approve the recommendation. Junge seconded. Motion carried unanimously.

LOTTO AMERICA OVERVIEW/GAME RULES

Porter stated the Mega Millions game is changing from a \$1.00 game to \$2.00, similar to Powerball. As a result, many states are launching a new lotto game for players loyal to the \$1.00 price point.

Porter asked the Board to allow Iowa to join 14 other states in adopting the new Lotto America game and also approve the game rules.

Klappholz moved to approve the Lotto America game and its game rules. Rathje seconded. Motion carried unanimously.

CEO UPDATE

Rich provided the Board his CEO update and mentioned the search for a new board member to replace Ying Sa, who resigned earlier in the year, is still underway.

ADJOURNMENT

Rathje moved to adjourn. Junge seconded. Motion carried unanimously.

Meeting adjourned at 11:40 am.

IOWA LOTTERY
PERFORMANCE MEASURES
FY 2018

November 30, 2017

		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
MONTH													
Gross Sales	Budget FY 2018	25,040,187	26,514,716	25,199,976	26,063,594	27,126,655	27,334,007	32,204,745	29,923,071	30,850,681	28,329,991	29,995,886	25,836,491
	Actual '18	28,206,485	38,467,880	26,630,836	26,964,621	27,665,819	-	-	-	-	-	-	-
Prize Expense	Budget FY 2018	14,858,996	15,742,543	14,954,742	15,472,229	16,254,469	16,378,716	19,297,294	17,930,100	18,485,931	16,891,189	17,891,887	15,399,545
	Actual '18	17,143,244	22,941,217	16,472,093	16,851,231	16,580,357	-	-	-	-	-	-	-
Operating Expenses	Budget FY 2018	1,221,802	1,311,871	1,222,236	1,291,537	1,273,991	1,224,256	1,316,795	1,174,968	1,259,991	1,221,196	1,322,765	1,428,719
	Actual '18	1,106,067	1,200,084	1,034,238	1,190,849	1,157,260	-	-	-	-	-	-	-
Total Proceeds	Budget FY 2018	5,183,039	5,469,502	5,223,408	5,374,638	5,663,645	5,766,329	6,917,570	6,476,754	6,628,603	6,023,721	6,347,551	5,179,461
	Actual '18	6,524,204	9,995,533	6,097,014	5,957,452	6,396,948	-	-	-	-	-	-	-
YEAR TO DATE													
Gross Sales	Budget FY 2018	25,040,187	51,554,903	76,754,879	102,818,473	129,945,128	157,279,135	189,483,880	219,406,951	250,257,632	278,587,623	308,583,509	334,420,000
	Actual '18	28,206,485	66,674,365	93,305,201	120,269,822	147,935,641	-	-	-	-	-	-	-
Prize Expense	Budget FY 2018	14,858,996	30,601,539	45,556,281	61,028,510	77,282,979	93,661,695	112,958,989	130,889,089	149,375,020	166,266,209	184,158,096	199,557,641
	Actual '18	17,143,244	40,084,461	56,556,554	73,407,785	89,988,142	-	-	-	-	-	-	-
Operating Expenses	Budget FY 2018	1,221,802	2,533,673	3,755,909	5,047,446	6,321,437	7,545,693	8,862,488	10,037,456	11,297,447	12,518,643	13,841,408	15,270,127
	Actual '18	1,106,067	2,306,151	3,340,389	4,531,238	5,688,498	-	-	-	-	-	-	-
Total Proceeds	Budget FY 2018	5,183,039	10,652,541	15,875,949	21,250,587	26,914,232	32,680,561	39,598,131	46,074,885	52,703,488	58,727,209	65,074,760	70,254,221
	Actual '18	6,524,204	16,519,737	22,616,751	28,574,203	34,971,151	-	-	-	-	-	-	-

	Current Month	Year to Date
Prize Payout - Budget	59.92%	59.47%
Prize Payout - Actual	59.93%	60.83%
Sales - Actual increase (decrease) vs. Budget		13.84%
Proceeds - Actual increase (decrease) vs. Budget		29.94%

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Three Months Ending Saturday, September 30, 2017

	Month ended 9/30/2017	Month ended 9/30/2016	Year-to-date 9/30/2017	Year-to-date 9/30/2016
Operating revenues:				
Instant-scratch ticket sales	\$18,310,844.00	\$17,766,079.00	\$56,047,262.00	\$54,022,710.00
InstaPlay sales	752,825.00	-	2,365,866.00	-
Pick 3 sales	625,983.00	565,428.50	1,911,867.50	1,744,357.50
Powerball sales	3,319,803.00	3,713,801.00	20,192,354.00	15,556,369.50
Mega Millions Sales	1,063,084.00	1,114,005.00	5,016,038.00	5,577,425.00
Hot Lotto sales	988,960.00	521,940.00	2,842,544.00	1,992,505.00
Pick 4 sales	359,351.50	304,397.50	1,094,186.50	931,230.50
All or Nothing sales	-	276,646.00	-	850,096.00
Lucky for Life sales	450,214.00	525,844.00	1,348,260.00	1,500,098.00
Pull-tab sales	759,771.50	1,093,186.72	2,486,822.85	3,352,888.26
Application fees	175.00	300.00	700.00	825.00
Other	645.75	248.05	1,792.05	871.27
Total operating revenues	<u>26,631,656.75</u>	<u>25,881,875.77</u>	<u>93,307,692.90</u>	<u>85,529,376.03</u>
Operating expenses:				
Scratch ticket prizes	11,965,101.00	11,537,386.65	37,055,224.50	35,751,745.62
InstaPlay prizes	477,611.93	-	1,554,514.05	-
Pick 3 prizes	371,179.80	313,307.70	1,129,900.50	1,011,905.10
Powerball prizes	1,598,747.50	1,780,187.50	9,876,714.50	7,636,480.00
Mega Millions prizes	520,529.00	549,859.14	2,421,957.00	2,758,566.46
Hot Lotto prizes	488,698.00	248,610.00	1,394,610.00	968,785.50
Pick 4 prizes	213,455.90	180,638.50	646,986.90	548,898.30
All or Nothing prizes	(2,238.00)	163,600.05	(8,712.00)	502,658.77
Lucky for Life prizes	356,031.63	334,694.63	879,567.60	913,725.75
Pull-tab prizes	473,646.71	683,905.07	1,550,956.44	2,096,741.59
VIP Club prize expense	71.05	1,150.00	27,348.44	28,491.70
Promotional prize expense	9,258.29	36,612.95	27,485.00	47,347.36
Advertising/publicity	696,209.85	524,200.05	1,895,044.76	1,608,411.97
Retailer compensation expense	1,720,407.40	1,692,974.58	6,017,773.48	5,521,605.14
Ticket expense	212,204.86	207,597.42	707,820.10	645,907.53
Vendor compensation expense	522,330.05	527,027.88	1,897,507.86	1,733,459.44
Salary and benefits	818,021.90	805,901.18	2,644,889.52	2,524,978.85
Travel	17,238.25	27,102.37	67,060.91	80,118.13
Supplies	3,337.10	7,160.10	33,190.65	50,467.88
Printing	1,012.00	-	5,812.00	1,171.96
Postage	292.77	223.18	826.54	912.73
Communications	12,365.53	12,469.37	35,609.99	35,827.09
Rentals	25,614.62	25,577.98	76,903.89	76,648.94
Utilities	8,409.99	8,905.20	27,154.42	30,683.69
Professional fees	10,374.44	13,460.68	29,248.94	27,070.38
Vending machine maintenance	31,424.10	50,390.76	105,515.28	151,172.28
Outside services and repairs	72,048.02	69,736.26	203,881.00	201,062.97
Data processing	7,050.76	9,680.61	21,440.84	29,072.05
Equipment	29,658.72	15,509.91	123,287.23	57,562.63
Reimbursement to other state agencies	30,691.65	30,528.93	89,650.81	91,846.53
Depreciation	45,856.05	27,450.57	138,159.49	81,487.82
Other	4,680.73	4,820.75	24,072.81	13,081.65
MUSL/Lotto administrative expense	(10,779.27)	13,016.59	1,839.26	39,049.78
Total operating expenses	<u>20,730,542.33</u>	<u>19,903,686.56</u>	<u>70,703,242.71</u>	<u>65,266,945.59</u>
Operating income	<u>5,901,114.42</u>	<u>5,978,189.21</u>	<u>22,604,450.19</u>	<u>20,262,430.44</u>
Non-operating revenue (expenses):				
Proceeds provided to State General Fund	(6,097,013.70)	(6,168,145.73)	(20,116,751.02)	(17,455,269.70)
Proceeds provided to Veteran's Trust Fund	-	-	(2,500,000.00)	(2,500,000.00)
Interest income	56,710.02	38,078.59	56,710.02	38,078.59
Gain (Loss) on disposal of capital assets	(103,950.65)	-	(98,600.65)	25,225.00
Net non-operating revenues (expenses)	<u>(6,144,254.33)</u>	<u>(6,130,067.14)</u>	<u>(22,658,641.65)</u>	<u>(19,891,966.11)</u>
Change in net position	<u>(243,139.91)</u>	<u>(151,877.93)</u>	<u>(54,191.46)</u>	<u>370,464.33</u>
Net position beginning of period	<u>6,546,478.16</u>	<u>7,076,419.74</u>	<u>6,357,529.71</u>	<u>6,554,077.48</u>
Net position end of period	<u><u>6,303,338.25</u></u>	<u><u>6,924,541.81</u></u>	<u><u>6,303,338.25</u></u>	<u><u>6,924,541.81</u></u>

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Four Months Ending Tuesday, October 31, 2017

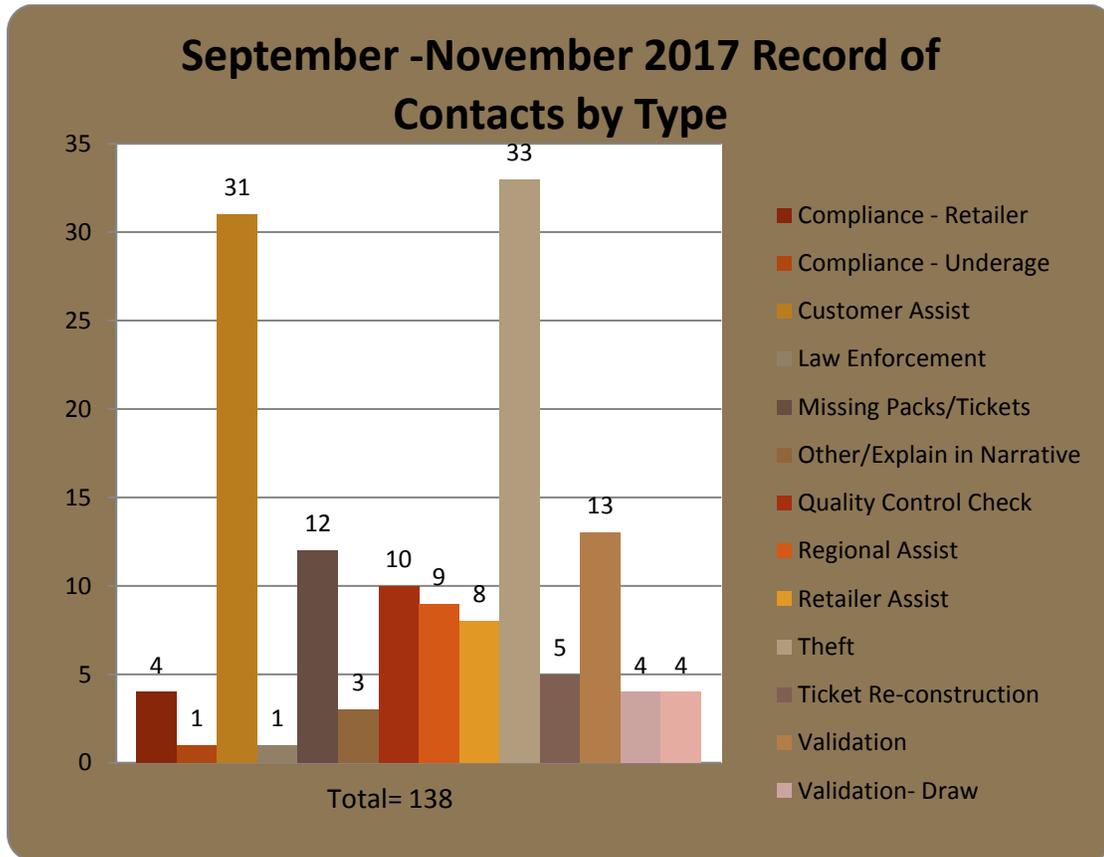
	Month ended 10/31/2017	Month ended 10/31/2016	Year-to-date 10/31/2017	Year-to-date 10/31/2016
Operating revenues:				
Instant-scratch ticket sales	\$18,909,469.00	\$18,370,564.00	\$74,956,731.00	\$72,393,274.00
InstaPlay sales	719,021.00	-	3,084,887.00	-
Pick 3 sales	633,302.50	604,610.00	2,545,170.00	2,348,967.50
Powerball sales	3,166,982.00	3,750,035.00	23,359,336.00	19,306,404.50
Mega Millions Sales	927,162.00	826,008.00	5,943,200.00	6,403,433.00
Hot Lotto sales	918,881.00	619,621.00	3,761,425.00	2,612,126.00
Pick 4 sales	376,313.50	325,647.00	1,470,500.00	1,256,877.50
All or Nothing sales	-	283,389.00	-	1,133,485.00
Lucky for Life sales	504,404.00	533,178.00	1,852,664.00	2,033,276.00
Pull-tab sales	809,085.97	1,076,096.53	3,295,908.82	4,428,984.79
Application fees	500.00	375.00	1,200.00	1,200.00
Other	610.03	185.97	2,402.08	1,057.24
Total operating revenues	26,965,731.00	26,389,709.50	120,273,423.90	111,919,085.53
Operating expenses:				
Scratch ticket prizes	12,523,683.67	12,123,964.00	49,578,908.17	47,875,709.62
InstaPlay prizes	470,813.77	-	2,025,327.82	-
Pick 3 prizes	375,791.50	351,557.10	1,505,692.00	1,363,462.20
Powerball prizes	1,543,476.00	1,834,620.00	11,420,190.50	9,471,100.00
Mega Millions prizes	457,973.34	404,782.39	2,879,930.34	3,163,348.85
Hot Lotto prizes	453,447.50	300,983.50	1,848,057.50	1,269,769.00
Pick 4 prizes	224,638.10	193,583.20	871,625.00	742,481.50
All or Nothing prizes	(2,511.00)	166,871.25	(11,223.00)	669,530.02
Lucky for Life prizes	286,249.88	454,690.03	1,165,817.48	1,368,415.78
Pull-tab prizes	506,131.27	672,371.17	2,057,087.71	2,769,112.76
VIP Club prize expense	5,400.00	1,000.00	32,748.44	29,491.70
Promotional prize expense	6,136.76	5,637.71	33,621.76	52,985.07
Advertising/publicity	536,933.97	619,418.82	2,431,978.73	2,227,830.79
Retailer compensation expense	1,762,914.93	1,706,615.21	7,780,688.41	7,228,220.35
Ticket expense	221,255.44	287,451.02	929,075.54	933,358.55
Vendor compensation expense	607,294.44	517,282.23	2,504,802.30	2,250,741.67
Salary and benefits	942,949.85	841,170.40	3,587,839.37	3,366,149.25
Travel	15,736.07	21,750.93	82,796.98	101,869.06
Supplies	5,831.06	5,777.91	39,021.71	56,245.79
Printing	-	1,410.10	5,812.00	2,582.06
Postage	259.68	290.98	1,086.22	1,203.71
Communications	10,293.82	13,832.58	45,903.81	49,659.67
Rentals	25,633.52	25,301.98	102,537.41	101,950.92
Utilities	1,901.86	1,180.57	29,056.28	31,864.26
Professional fees	25,041.16	14,191.07	54,290.10	41,261.45
Vending machine maintenance	23,856.32	40,597.96	129,371.60	191,770.24
Outside services and repairs	70,909.56	62,660.01	274,790.56	263,722.98
Data processing	7,057.25	9,665.67	28,498.09	38,737.72
Equipment	59,270.11	11,578.80	182,557.34	69,141.43
Reimbursement to other state agencies	64,477.50	31,922.57	154,128.31	123,769.10
Depreciation	45,851.41	30,362.66	184,010.90	111,850.48
Other	4,421.33	10,772.17	28,494.14	23,853.82
MUSL/Lotto administrative expense	613.09	13,016.59	2,452.35	52,066.37
Total operating expenses	21,283,733.16	20,776,310.58	91,986,975.87	86,043,256.17
Operating income	5,681,997.84	5,613,398.92	28,286,448.03	25,875,829.36
Non-operating revenue (expenses):				
Proceeds provided to State General Fund	(5,957,452.26)	(5,667,009.63)	(26,074,203.28)	(23,122,279.33)
Proceeds provided to Veteran's Trust Fund	-	-	(2,500,000.00)	(2,500,000.00)
Interest income	16,299.57	4,741.83	73,009.59	42,820.42
Gain (Loss) on disposal of capital assets	(33,574.34)	(109,066.00)	(132,174.99)	(83,841.00)
Net non-operating revenues (expenses)	(5,974,727.03)	(5,771,333.80)	(28,633,368.68)	(25,663,299.91)
Change in net position	(292,729.19)	(157,934.88)	(346,920.65)	212,529.45
Net position beginning of period	6,303,338.25	6,924,541.81	6,357,529.71	6,554,077.48
Net position end of period	6,010,609.06	6,766,606.93	6,010,609.06	6,766,606.93

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Five Months Ending Thursday, November 30, 2017

	Month ended 11/30/2017	Month ended 11/30/2016	Year-to-date 11/30/2017	Year-to-date 11/30/2016
Operating revenues:				
Instant-scratch ticket sales	\$19,735,685.00	\$19,307,338.00	\$94,692,416.00	\$91,700,612.00
InstaPlay sales	695,312.00	490,815.00	3,780,199.00	490,815.00
Pick 3 sales	617,432.50	600,815.00	3,162,602.50	2,949,782.50
Powerball sales	3,364,229.00	5,715,781.00	26,723,565.00	25,022,185.50
Mega Millions Sales	1,212,096.00	929,556.00	7,155,296.00	7,332,989.00
Hot Lotto sales	-	637,406.00	3,761,425.00	3,249,532.00
Pick 4 sales	367,004.50	338,773.50	1,837,504.50	1,595,651.00
All or Nothing sales	-	258,048.00	-	1,391,533.00
Lucky for Life sales	514,576.00	441,382.00	2,367,240.00	2,474,658.00
Lotto America sales	307,696.00	-	307,696.00	-
Pull-tab sales	851,788.19	1,007,925.96	4,147,697.01	5,436,910.75
Application fees	300.00	250.00	1,500.00	1,450.00
Other	447.27	9,623.71	2,849.35	10,680.95
Total operating revenues	27,666,566.46	29,737,714.17	147,939,990.36	141,656,799.70
Operating expenses:				
Scratch ticket prizes	12,375,734.00	12,166,507.00	61,954,642.17	60,042,216.62
InstaPlay prizes	435,337.04	305,747.40	2,460,664.86	305,747.40
Pick 3 prizes	366,979.50	344,750.00	1,872,671.50	1,708,212.20
Powerball prizes	1,602,768.50	2,823,857.50	13,022,959.00	12,294,957.50
Mega Millions prizes	620,942.92	452,637.00	3,500,873.26	3,615,985.85
Hot Lotto prizes	(7,473.00)	309,959.00	1,840,584.50	1,579,728.00
Pick 4 prizes	218,527.70	201,739.10	1,090,152.70	944,220.60
All or Nothing prizes	(66,906.82)	152,262.33	(78,129.82)	821,792.35
Lucky for Life prizes	294,721.19	262,326.44	1,460,538.67	1,630,742.22
Lotto America prizes	153,848.00	-	153,848.00	-
Pull-tab prizes	532,701.54	629,253.93	2,589,789.25	3,398,366.69
VIP Club prize expense	33,800.00	7,000.00	66,548.44	36,491.70
Promotional prize expense	19,376.68	10,354.06	52,998.44	63,339.13
Advertising/publicity	653,321.34	442,162.57	3,085,300.07	2,669,993.36
Retailer compensation expense	1,806,254.80	1,921,519.53	9,586,943.21	9,149,739.88
Ticket expense	262,890.36	295,466.77	1,191,965.90	1,228,825.32
Vendor compensation expense	634,303.42	611,010.23	3,139,105.72	2,861,751.90
Salary and benefits	945,377.63	886,104.58	4,533,217.00	4,252,253.83
Travel	17,578.38	20,303.01	100,375.36	122,172.07
Supplies	13,844.44	3,515.16	52,866.15	59,760.95
Printing	-	-	5,812.00	2,582.06
Postage	262.09	266.32	1,348.31	1,470.03
Communications	11,445.85	13,221.44	57,349.66	62,881.11
Rentals	25,643.87	25,105.47	128,181.28	127,056.39
Utilities	7,665.63	5,077.74	36,721.91	36,942.00
Professional fees	15,011.86	14,834.16	69,301.96	56,095.61
Vending machine maintenance	20,319.95	41,763.97	149,691.55	233,534.21
Outside services and repairs	42,407.96	48,918.91	317,198.52	312,641.89
Data processing	7,059.02	10,151.13	35,557.11	48,888.85
Equipment	30,649.67	239,565.69	213,207.01	308,707.12
Reimbursement to other state agencies	41,231.14	67,764.72	195,359.45	191,533.82
Depreciation	46,330.63	34,774.46	230,341.53	146,624.94
Other	5,608.53	5,009.71	34,102.67	28,863.53
MUSL/Lotto administrative expense	720.50	13,016.58	3,172.85	65,082.95
Total operating expenses	21,168,284.32	22,365,945.91	113,155,260.19	108,409,202.08
Operating income	6,498,282.14	7,371,768.26	34,784,730.17	33,247,597.62
Non-operating revenue (expenses):				
Proceeds provided to State General Fund	(6,396,947.62)	(7,230,014.28)	(32,471,150.90)	(30,352,293.61)
Proceeds provided to Veteran's Trust Fund	-	-	(2,500,000.00)	(2,500,000.00)
Interest income	5,930.40	5,189.86	78,939.99	48,010.28
Gain (Loss) on disposal of capital assets	(7,797.00)	(73,165.00)	(139,971.99)	(157,006.00)
Net non-operating revenues (expenses)	(6,398,814.22)	(7,297,989.42)	(35,032,182.90)	(32,961,289.33)
Change in net position	99,467.92	73,778.84	(247,452.73)	286,308.29
Net position beginning of period	6,010,609.06	6,766,606.93	6,357,529.71	6,554,077.48
Net position end of period	6,110,076.98	6,840,385.77	6,110,076.98	6,840,385.77

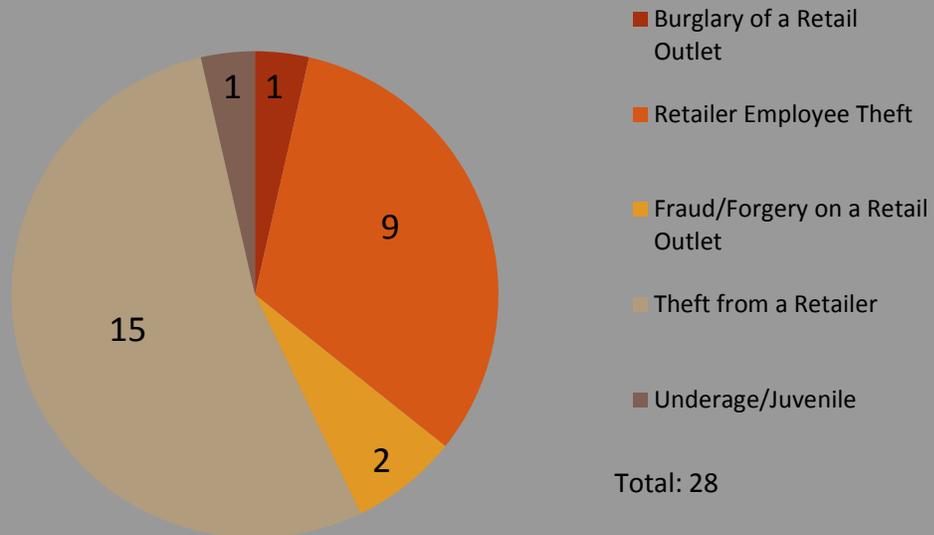


September - November 2017 Security Report



Other: (1) Quarterly Vendor Inspection (1) Follow up with UPS package issue; (1) Sale of Lottery product on credit

September -November 2017 Cases by Type



Other Duties and Activities;

- Winner Validation for (4) Secret Santa/No So Secret Santa promotional drawings
- Conducted **101** compliance/inspection checks on retail outlets, sent follow up letters to all retailers to provide results of the compliance check at their store
- **51** Retail Employee Claim Verifications



13001 University Avenue
Clive Iowa 50325-8225
www.ialottery.com
515.725.7900

Kim Reynolds · Governor
Adam Gregg · Lt. Governor
Terry Rich · Chief Executive Officer

Date: December 19, 2017

To: Iowa Lottery Board Members
From: Larry L. Loss
Re: Retailer Compensation Program

Periodically the Lottery needs to update the Retailer Compensation Program. Due to changes in games offered by the Iowa Lottery, now is one of those times. As part of the process to update the Retailer Compensation Program, we have reviewed the entire program and are recommending the following changes:

- Deleting the Hot Lotto Jackpot bonus.
- Adding the Lotto America Jackpot bonus
- Eliminating the Sliding Scale incentive for on-line games.
- Increasing the Peak Sales Bonus on Powerball & Mega Millions to .75% and raising the level that the bonus begins to \$400 million.
- Adding a Gold Star requirement that retail employees will not purchase or play lottery tickets while on duty.

We anticipate that these changes will be revenue neutral to both the Iowa Lottery and lottery retailers. If you approve the recommended changes, the changes would be effective on January 1, 2018.

In addition to recommending the changes above, we are also asking that you allow the Lottery to make one adjustment to the current Retailer Compensation Program. Since the Hot Lotto game has ended and the Lotto America game has begun, we are recommending that Lotto America sales should be included in the sliding scale incentive program.

IOWA LOTTERY

Retailer Compensation Program

January 1, 2018

ON-LINE (LOTTO) GAMES

Retailers will receive a base commission rate of 5.5% on all on-line tickets sold.

Ticket Allowance:

Retailers will receive an additional 0.1% of the sales of all on-line games added to the base commission rate for tickets that are damaged or produced in error.

High Tier Prize Sales Bonus:

Powerball Jackpot winning play	\$10,000
Mega Millions Jackpot winning play	\$10,000
Lotto America Jackpot winning play	\$ 5,000
Lucky for Life Top Prize winning play*	\$ 5,000
Lucky for Life Second Prize winning play**	\$ 500

With the exception of the prizes listed above, all non-jackpot winning on-line game plays of \$100,000 or more will receive a bonus of 1/10 of 1 percent of the prize amount (e.g. \$100,000 winning play earns a \$100 bonus).

* Lucky for Life Top Prize is \$1,000 a day for life

**Lucky for Life Second Prize is \$25,000 a year for life

Peak Sales Bonuses on Powerball/Powerplay and Mega Millions/Megaplier:

Retailers will receive a 0.75% sales bonus on all sales when the Powerball or Mega Millions jackpot is equal to or exceeds \$400 million. Sales will be tracked during the jackpot run and the bonuses will be awarded after the jackpot is won.

INSTAPLAY GAMES

Retailers will receive a base commission rate of 5.5% on all InstaPlay tickets sold.

Ticket Allowance:

Retailers will receive an additional 0.1% of the sales of all InstaPlay games added to the base commission rate for tickets that are damaged or produced in error.

INSTANT-SCRATCH GAMES

Retailers will receive 5.5% commission on the sale of all instant-scratch tickets.

- A. Retailers can become a GOLD STAR PROGRAM member and receive a 7% commission on the sale price of instant-scratch tickets sold if they meet the requirements of the GOLD STAR PROGRAM. GOLD STAR PROGRAM members will adopt the workplace best practice that their employees will not purchase or play any lottery products while on duty. If the Lottery ascertains that the retailer is not in compliance, the Lottery may change the instant-scratch commission rate back to 5.5%.

If the retailer subsequently demonstrates to the Lottery that they meet the GOLD STAR PROGRAM requirements, they can request to have the 7% Gold Star commission rate restored by the Lottery.

GOLD STAR PROGRAM requirements are:

1. Comply with all advertising requirements:

- A. Lottery Door Decal
- B. Game Brochures
- C. 19" Flat Panel Monitor
 - a. The monitor must be located in the primary sales area adjacent to the Wave terminal and positioned in view of the players.

2. Sell sixteen (16) or more different games from dispenser(s). Games must be:

- A. Displayed in the primary sales area in a highly visible Lottery approved location
- B. Displayed on the front counter in plain view of the public, in Lottery approved dispensers
- C. Maintain inventory levels necessary to keep the dispensers full at all times

3. As a function of the courier delivery system, the retailer agrees to accept the delivery of, activate and place the tickets for sale.

4. Employees will not purchase or play any lottery products while on duty.

PULL-TAB GAMES

Retailers will receive a 5% commission on the sale of all pull-tab tickets.

OTHER INCENTIVES

Through the course of a fiscal year, the Lottery may choose to offer special incentives for retailer related activities not covered by the categories detailed elsewhere in this document. The incentives would include, but are not limited to, incentive money, lottery tickets and merchandise prizes. The total value of the incentives for this section will not exceed \$40,000 in any fiscal year.

Iowa Lottery Authority—Financial Management

Section Pre-Audit	Procedure No. 210.100	Page No. 1 of 1	Effective Date October 1, 2005 <u>January 1, 2018</u>
Subject Travel—General—General Information			

1. **Personal funds to be supplied.** All employees shall provide themselves with sufficient funds for all current expenses. ~~However, travel advances are allowed in certain instances. See procedures 210.210 and 210.310 for details. Any other exceptions to this shall be requested in writing to the CFO.~~ For further details regarding direct billing, see procedure 210.115.
2. Reimbursable expenses and travel allowances shall be limited to an allowance for meals, lodging, transportation, and other actual and necessary travel expenses incurred by a traveler in the performance of official duties subject to applicable limitations. Funds for personal mileage will be reimbursed at the current rate allowable per mile (procedure 210.130(1)).
3. All official travel shall be authorized by the CEO or a designee prior to the travel whenever possible. This applies to in-state and out-of-state travel ~~that is not subject to ILA Board approval.~~
4. Reimbursement for transportation approved by the CEO or designee shall be for the most economical or advantageous mode and by the most reasonable and/or direct route (see procedure 210.200(1)(c)).
5. The ILA recognizes that occasionally it is appropriate for ILA employees to purchase a meal for a vendor, a lottery official from another jurisdiction, or a retailer representative. The following guidelines shall be followed by ILA employees in such situations:
 - a. Restaurant choices should be appropriate for the circumstance; however, elegant meals are discouraged. Employee meal limitations are waived for this purpose.
 - b. Prior approval must be obtained from either the CEO or an ILA vice president. The names of the meal recipients, the recipients' employers, and the expected meal cost must be included in the request for approval. The CEO and vice presidents do not need prior approval.
 - c. The cost of the meal for the employee, and the cost for the vendor, visiting lottery official, or retailer representative must be separately itemized on the travel claim. Receipts for all meals falling under this policy are required. An itemized credit card receipt is acceptable.
 - d. Meals purchased for an employee's consumption within the employee's domicile are considered taxable income to the employee, except as provided in policy 210-108.

Iowa Lottery Authority—Financial Management

Section	Procedure No.	Page No.	Effective Date
Pre-Audit	210.103	1 of 1	July 31, 2017 <u>October 1, 2017</u>
Subject Travel—General—Meal Reimbursement			

1. Meal reimbursement shall be allowed only in conjunction with an overnight stay, except:
 - a. When a meal is provided and is an integral part of a meeting, conference, retreat, or special event, and prior approval obtained from the Chief Executive Officer (CEO) or designee.
 - b. When approved by a Vice President and the CEO, or designee for any such meal reimbursements.
2. ~~“Travel Status” is defined by the IRS as having an overnight stay either the day of the meal reimbursement or the night previous to the meal reimbursement. “Integral” means the employee is required to stay through the meal time(s) and the employee’s presence is essential to the continuation of the meeting while business is conducted.~~

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Iowa Lottery Authority—Financial Management

Section	Procedure No.	Page No.	Effective Date
Pre-Audit	210.108	1 of 1	October 1, 2005 <u>October 1, 2017</u>
Subject Travel—General—Official Domicile—Meal Reimbursement			

For both office employees and field employees, no meals will be reimbursed within the official domicile or place of residence, with the following exceptions:

- a) ILA employees assigned to work at the state fair
- b) ILA employees working in an advertising production setting where meals are provided for the production crew
- c) When prior approval is obtained from the CEO or a designee. Such prior approvals shall be limited to instances when the meal is an integral part of a meeting, retreat or special event and is in excess of the maximum reimbursement allowed for conference rates. (see procedures 210.115 and 210.220 1(a)(2)). The CEO or the designee must indicate prior approval for meal reimbursement within the official domicile or place of residence on the voucher. “Integral” means the employee is required to stay through the meal time(s) and the employee’s presence is essential to the continuation of the meeting while business is conducted.
- d) Meals purchased in accordance with procedure 210.100 section 5.

Meals purchased within an employee’s domicile are considered taxable income to the employee, except for de minimis meals and meals furnished for the ILA’s convenience, as explained below.

Deminimis (Minimal) Meals

“Deminimis meals” include any food items or beverages that are provided by an employer to an employee that have so little value that accounting for them is unreasonable or administratively impracticable. Deminimis meals include, but are not limited to:

- a) Coffee, donuts, softdrinks, etc. provided at a work-related function.
- b) Occasional meals provided in order to enable an employee to work extra hours.

The value of de minimis meals will be excluded from an ILA employee’s wages. The CEO or a designee will determine whether a meal meets the definition of a de minimis meal.

Meals Furnished for the ILA’s Convenience

The ILA will also exclude the value of meals it furnishes to an employee from the employee’s wages if the meals are furnished on an ILA business premises (defined as ILA headquarters, a regional office, or the ILA warehouse in Ankeny) and if the meals are furnished for the ILA’s convenience. The CEO or a designee will determine whether a meal meets this definition. Meals furnished to promote goodwill, boost morale, or attract prospective employees will not be considered to be furnished for the ILA’s convenience. However, the de minimis meal definition above may apply to such meals if the CEO or a designee so determines.

Iowa Lottery Authority—Financial Management

**This procedure has been removed – no travel advances permitted any longer
eff. 01/01/2018**

Section	Procedure No.	Page No.	Effective Date
Pre-Audit	210.310	1 of 2	July 1, 2017
Subject Travel—Out-of-State—Travel Advance			

1. ILA employees who are required to travel out-of-state may apply for a travel advance if the anticipated out-of-pocket expenses exceed \$200.00. An advance may include:
 - a. 100% of the registration fees (see procedure 210.320 for more details).
 - b. 100% of the air fare (see procedure 210.325 for further explanation).
 - c. 100% of required hotel deposits or pre-payments, with proper supporting documentation or justification.
 - d. 80% of all other anticipated expenses exceeding \$200.00.
2. To receive a travel advance, a Temporary Out-of State Travel Advance Form (TA) must be completed and submitted to the ILA finance division. The TA must include:
 - a. A memo reference to the approved ILA CEO Travel Department Authorization (TDA) number. (see procedure 210.315).
 - b. A copy of the itinerary/invoice from the airline when applicable. See Procedure 210.325 to determine when this is necessary.
 - c. Documentation relating to registration when applicable (see procedure 210.320 for further information).
3. Expenses for out-of-state travel should be estimated as accurately as possible. Approved out-of-state travel claims will be pre-audited to assure final expenditures are reasonable and proper and in accordance with established travel procedures.
4. With the following exceptions, travel advances for the 80% of anticipated out-of-pocket costs will not be processed earlier than seven (7) working days before the trip occurs. In all instances, the request must be submitted on a TA with the appropriate out-of-state travel approvals and appropriate documentation.
 - a. Reimbursement of transportation costs may be requested earlier than seven days before the trip (see procedure 210.325 for further details).
 - b. Registration fees may be reimbursed earlier than seven days before the trip in certain instances (see procedure 210.320 for information on when this is possible).

Iowa Lottery Authority—Financial Management

**This procedure has been removed – no travel advances permitted any longer
eff. 01/01/2018**

Section	Procedure No.	Page No.	Effective Date
Pre-Audit	210.310	2 of 2	July 1, 2017
Subject Travel—Out-of-State—Travel Advance			

5. The travel advance shall be deducted from the travel payment with a TP form (not the TA) submitted by the employee upon completion of the trip. The amounts charged to the various expenditure objective codes on the advance claim should be deducted from the like gross amounts on the final claim. If the travel expenses exceed the travel advance, use event type TR04 on all lines of the claim.
6. If, for any reason, an ILA employee does not make the anticipated trip, the ILA employee will contact the Vice President of Finance and discuss the handling of the TA.
7. If the employee has been advanced more than the actual out-of-pocket expenses, the employee shall make out a personal check payable to the ILA within thirty (30) calendar days of the completion of the trip. A copy of the personal check, a copy of the ILA's Cash Receipt (CR) and a travel payment overpayment (TPO) documenting the actual expenses (including the original receipts when applicable) shall be sent to DAS-SAE upon completion of the trip. Event type TR03 is used on all lines of the TPO. The CR document should use the CR Event Type of AR61 (Collect Travel Overpayment) and the Balance Sheet Account (BSA) 1418 (Receivable). The CR must use AR61 as the event type to close the receivable and to keep the system in balance. (See procedure 280.205 for more information on preparing TPOs).
8. By certifying the TA form, the employee gives DAS authority to recover funds owed the ILA (through payroll deduction) that have not been repaid within thirty (30) days of completion of the trip. If a final claim is not submitted, it is assumed the entire amount is owed to the ILA. ILA will contact DAS-Central Payroll to start the process.
9. The ILA reserves the right to refuse advances when funds are currently owed to it or when there have been prior abuses.
10. Travel advances are not available for non-ILA employees who are traveling on behalf of the ILA.
11. For an example of the TA form, and instructions on completion of the form, see procedure 280.203.

Iowa Lottery Authority—Financial Management

Section	Procedure No.	Page No.	Effective Date
Pre-Audit	210.320	1 of 2	July 1, 2017 <u>January 1, 2018</u>
Subject Travel—Out-of-State—Registration			

1. All out-of-state travel ~~or related and estimated~~ expenditures must be approved on the Travel Department Authorization (TDA) document by the ILA CEO. See procedure 210.315 for more details.
2. All out-of-state registration fees are to be paid by the employee or with the department or individual Travel Card. ~~The employee may choose from the following options to pay the registration fee:~~
 - a. ~~The employee may request a 100% travel advance on a Temporary Out-of-State Travel Advance (TA-TEMP):~~
 - (1) If prepayment of the registration fee is necessary to attend the function, or, if there is a savings at least equal to the annual rate of interest earned by the state of Iowa Treasurer's Office, ~~the advance can be requested prior to the applicable due date. A letter or~~ prior approval to prepay is not necessary.
 - (2) If the registration fee can be paid at the door, ~~the employee can receive an advance for 100% of the registration fee up to seven (7) working days before the function begins.~~
 - ~~(3) The following information must be included on or attached to the TA-TEMP follow-up Travel Payment (TP) document:~~
 - ~~(a) A memo reference to the approved TDA document number, as approved by the ILA CEO, must be entered on the TA-TEMP.~~
 - ~~(b) A copy of the registration form or something similar that details the cost of the conference. A copy of the agenda and registration form that shows additional information (e.g., meals provided) is required to ensure the function is allowable (see procedure 210.315).~~
 - ~~(c) Documentation that indicates that prepayment is allowable per the requirements of provision 2(a)(1) above.~~
 - ~~(4) The following information MUST be attached to the follow-up travel payment (TP):~~
 - (a) The original paid receipt, or a copy of the front and back of the employee's cancelled check, or a copy of the employee's credit card statement and;
 - (b) The reference number of the approved TDA document and;

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Iowa Lottery Authority—Financial Management

Section	Procedure No.	Page No.	Effective Date
Pre-Audit	210.320	2 of 2	July 1, 2017 <u>January 1, 2018</u>
Subject			
Travel—Out-of-State—Registration			

(c) A copy of the registration form or something similar to indicate cost. A copy of the agenda and registration form that shows additional information (e.g., meals provided, etc.) is required to ensure the function is allowable (see procedure 210.315).

(d). The employee may pay the registration fee ~~without receiving an advance~~ and seek reimbursement after the event concludes.

(53) All the following is needed to reimburse the employee:

- (a) The original paid receipt, or a copy of the front and back of the employee's cancelled check, or a copy of the employee's credit card statement, and;
- (b) The reference number of the approved TDA document, and;
- (c) A copy of the registration form or something similar that details the cost of the conference. A copy of the agenda may be requested if additional information is needed to ensure the function is allowable (see procedure 210.315).

(6) ~~If the registration fee was prepaid by the employee, and the employee did not request an advance, the employee can seek reimbursement prior to the event upon receipt of the paid receipt, or a copy of the front and back of the employee's cancelled check, or a copy of the employee's credit card statement. Reimbursement must be sought on a Travel Advance (TA). If the employee chooses, reimbursement may be on the follow up travel claim~~

~~(7) If reimbursement of the registration fee was not obtained before event, then the employee must seek reimbursement on the follow up claim (TP) that is submitted at the end of the trip.~~

3. Registration fees are to include ONLY the pro-rated costs of conducting the conference, seminar, etc., and not costs connected with entertainment. Group meals included in the registration fees are acceptable. Group meals that are included in the registration fee must be noted on the final travel payment (see procedures 280.201(2)(j),(k), & (l) and 210.305.)
4. When registering for a conference or seminar over the Internet, request a paid receipt be returned. If the sponsor does not provide a paid receipt, a printed copy of the registration form or electronic registration acknowledgment that is matched with a copy of the employee's cancelled check (front and back) or credit card receipt with appropriate information on the credit card statement will be accepted.

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Iowa Lottery Authority—Financial Management

Section	Procedure No.	Page No.	Effective Date
PRE-AUDIT	210.325	1 of 1	July 1, 2012 <u>January 1, 2018</u>
Subject TRAVEL – OUT-OF-STATE – REIMBURSEMENT FOR AIRLINE TICKETS			

1. When making travel arrangements, ILA employees will determine the most economical or advantageous method to the state. Modes of transportation include airline, train, bus and other.
- ~~1. Reimbursement of the airline ticket cost may be requested PRIOR to the trip occurring. A copy of the invoice/itinerary and receipt (when available from the airline) must be submitted with the Temporary Out-of-State Travel Advance (TA). Upon submitting the final claim relating to the trip, a copy of the invoice/itinerary must be attached to that Travel Payment. This claim must be referenced to the claim in which the airfare was paid.~~
2. A claim for reimbursement of a ticket ~~when no travel advance was issued~~, must have the invoice/itinerary and receipt (when a receipt is available from the airline) attached.
3. When other modes of transportation are used, such as train travel, similar procedures must be followed.
4. Advance Seat Selection, when purchased at the time of booking the flight, is a reimbursable expense. Advance Seat Selection may be used to assist in securing a seat for the flight.
5. Advance Seat Selection does **not include any type of an upgrade** to anything other than, or in addition to, the most economical, standard, Advance Seat Selection offered. When selecting the Advance Seat Selection option, airlines may offer “bundles” for the seat choice. **Only the most economical and standard Advance Seat Selection is reimbursable.** If the state seat selection is bundled, or includes any of the items below, it is a non-reimbursable expense, unless approval is obtained by ILA CEO or designee. Examples of non-reimbursable Advance Seat Selection options (not an inclusive list):
 - Aisle Seat
 - Window Seat
 - Seat with extra legroom
 - Business Class seat
 - Early boarding or exiting
 - Specific seat assignments allowing two or more individuals to sit together
 - Extra checked baggage
 - Internet Service/Video Entertainment/Audio Headsets
6. Airlines may have requirements to follow for the check-in of the flight, allowing an Advance Seat Selection assignment to remain active and not become subject to cancellation prior to the flight. As requirements of check-in vary by airline, review the rules at the time of booking and follow any specific instructions in order for the seat

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Iowa Lottery Authority—Financial Management

assignment to remain secured. Typically, if the airline cancels a seat assignment because the individual did not follow requirements, a refund of the Advance Seat Selection fee is not provided by the airline.

4.7. If for any reason, an ILA employee does not make the anticipated trip, the ILA employee will contact the Vice President of Finance and discuss the handling of any costs incurred by the employee.