

MINUTES
IOWA LOTTERY BOARD
June 13, 2008

The meeting was called to order by Vice Chairperson Junge at 10:06 a.m. Board members present at Lottery Headquarters: Elaine Baxter, Thomas Rial, Brad Schroeder, Michael Fitzgerald. Participating by telephone: Mary Junge, Michael Klappholz.

Staff present: Kenneth Brickman, Acting CEO; Harry Braafhart, Vice President for Security; Steven King, Chief Financial Officer; Joe Hrdlicka, Vice President for Marketing; Larry Loss, Vice President for Sales; Mary Neubauer, Vice President for External Affairs; David Van Compernelle, Assistant Attorney General; Ken Moon and John Ellison, Security Investigators; Brenda Loy, Financial Manager; Sally Robson; Barbara DeHeck, secretary.

Others present: Gerry Meyers (Guidon), Mike Rohlf (Department of Management), Mike Motsinger and Mark Ludwick (Division of Criminal Investigation); Hon. Thomas Miller, Attorney General; Julie Pottorff and Kristin Ensign (Office of the Attorney General).

Junge called the meeting to order and noted that the Board members were participating by means of a conference call, with the provisions of Iowa Code section 21.8 governing the conduct of electronic meetings in effect. A meeting with all members in attendance in person was impractical due to weather conditions. The meeting originated from the Lottery central offices in Des Moines and public notice of the meeting was given pursuant to Iowa Code section 21.4, with public access to the conversation of all participants provided by means of speakerphone for the benefit of all in attendance at the meeting site. Baxter moved to conduct the meeting by electronic means, pursuant to Code section 21.8. The motion was seconded by Klappholz and carried unanimously.

Minutes

Klappholz moved to approve the minutes of the April 3, 2008 meeting. The motion was seconded by Schroeder and carried unanimously.

Monthly Reports

Written reports were included in the agenda package. Staff members reviewed the information and responded to questions from Board members.

Schroeder moved to accept the monthly reports as presented. The motion was seconded by Baxter and carried unanimously.

FY '09 Budget Modification

King presented proposed amendments to the fiscal year 2009 budget (Attachment A). He indicated the figures anticipated increased sales and related expenses from the veterans' games authorized by legislature and increased ticket stock and delivery costs due to ticket receipt printing as part of the Sign Up program. He noted that the requested \$27,000 increase for staff salaries was much lower than ever before because no funds were set aside for employee incentive payments during FY '09. In addition, the state vehicle budget would be increased by \$55,000 because of rising gasoline prices.

Schroeder moved to approve the FY 2009 proposed amended budget. The motion was seconded by Klappholz and carried unanimously.

Kaizen Presentation

Lottery staff had participated in a week-long (June 9-13) Kaizen event as part of the State of Iowa Continuous Improvement Program run by the Department of Management (DOM). Mike Rohlf of DOM explained that it was a team process involving agency personnel, representatives of the Attorney General's office and the Division of Criminal Investigation (DCI). Lottery staff participating were Marci Tooman, Steven King, Joe Hrdlicka, Larry Loss, Mary Neubauer, Ken Moon, John Ellison, Brenda Loy, and Sally Robson. Also participating were Kristin Ensign from the Attorney General's office, Mike Motsinger and Mark Ludwick from DCI, and consultant Gerry Meyers from Guidon.

King explained that Kaizen was a Japanese term which could be roughly translated as "change for the better" or "continuous improvement." Brickman noted that the Governor wanted all state agencies to undertake a Kaizen project. The Lottery's Kaizen endeavor had focused on improvements to the vendor background investigation process for major procurements, with the goal of streamlining the RFP evaluation process as it related to background investigations in order to realize cost savings in the investigation process itself and to minimize the cost to bidders in order to maximize the number of companies bidding, resulting in greater competition and more competitive pricing. Lottery staff reviewed for the Board the current RFP evaluation and background investigation process and explained the changes and improvements which the group had identified.

Baxter congratulated the team for its efforts and accomplishments and said their presentation had made it clear how useful the process could be in many applications.

Schroeder asked how the staff had settled on the topic of study.

Neubauer replied that it had been an issue for the Lottery for some time, as more and more companies had expressed concern about the cost of background checks. The next RFP to be issued would be for the on-line system, a very large contract, and the Lottery wanted to insure as much competition as possible.

Junge thanked everyone who participated in the process.

Litigation Update and Key Employee Salaries

Junge announced that the office of the Attorney General was prepared to consult with the Board on the status of pending litigation and that the briefing should be conducted in closed session as provided in Iowa Code chapter 21.5(1)(c) which provided for closed session to discuss strategy with counsel in matters presently in litigation or where litigation was imminent where its disclosure would be likely to prejudice or disadvantage the position of the governmental body in that litigation; and further, that the annual Key Employee performance and compensation review was due and the Key Employees had requested in writing that any such review be conducted in closed session, as provided by Iowa Code chapter 21.5(1)(i) to evaluate the professional competency of an individual whose appointment, hiring, performance or discharge was being considered when

necessary to prevent needless and irreparable injury to that individual's reputation and that individual requests a closed session.

Rial moved to go into closed session pursuant to Iowa Code chapters 21.5(1)(c) and 21.5(1)(i). The motion was seconded by Schroeder and carried by a unanimous roll-call vote.

The Board convened in closed session at 11:15 a.m. At 12:18 p.m. the Board returned to open session upon a motion by Rial, seconded by Schroeder, and carried by a unanimous roll-call vote. No action was taken in closed session.

Baxter left the meeting at 12:08 p.m. due to another commitment.

Schroeder moved to approve a total expenditure of \$85,000 for additional litigation salary support as requested by the Attorney General in defending against the pending TouchPlay litigation. The motion was seconded by Rial and carried unanimously.

Schroeder moved that any merit increases for key employees for fiscal year 2009 be handled as they were for fiscal year 2008, that they be based on performance, be within the applicable range, and that they be determined by the Acting CEO in consultation with the Board Chair representing the Board. The motion was seconded by Klappholz and carried unanimously.

Advertising Agency Contract Extensions

Robson noted that the Lottery had contracted with Integer Group Midwest for creative advertising services, and with Strategic America for broadcast media planning and buying services for fiscal year 2008. Both contracts were now eligible for a one-year renewal option for fiscal year 2009. She indicated both companies had provided exemplary service and the staff therefore recommended exercising both contract renewal options. In addition, the staff recommended an amendment to the contract with Integer to include legal services as an acceptable outside product or service in the event expert counsel was needed for intellectual property or talent negotiation issues.

Schroeder moved to extend the contracts with Integer and Strategic America for fiscal year 2009 and amend the contract with Integer to include legal services as an acceptable outside product or service. The motion was seconded by Rial and carried unanimously.

Pull-Tab RFP Recommendation

Hrdlicka reported that two proposals were received in response to an RFP for pull-tab ticket printing services issued on March 7, 2008. The proposals, from American Games Inc. of Council Bluffs, Iowa, and International Gamco Inc. of Omaha, Nebraska, were reviewed by Lottery staff and scored based on cost, marketing support, printing equipment, ticket quality, security, and other factors. He indicated both vendors were competent and experienced, and offered acceptable pricing. American Games had the highest total score and also offered pricing lower than its competitor and more competitive than the pricing under the current pull-tab contract. The staff, therefore, recommended negotiation of a contract with American Games for the period of January 1, 2009 through December 31, 2010, with up to three one-year extension options.

Rial moved to approve the negotiation of a two-year contract, with three options for one-year extension, with American Games, with the contract to be subject to Board approval. The motion was seconded by Schroeder and carried unanimously.

Administrative Rules

Brickman indicated the amendments to Chapter 11 of the Lottery's administrative rules, to require players to sign tickets prior to presenting them for checking of validation, were approved by the Board for adoption and emergency filing at its February 20, 2008, meeting. He reported that a public hearing on the rules was scheduled for April 2, 2008. As no request for public comment was received and no one attended the hearing, Board approval was requested for final adoption of the amended rules.

Schroeder moved to adopt the rules as discussed and give permission for the final version to be published. The motion was seconded by Klappholz and carried unanimously.

Date for Next Meeting

The next Board meeting was scheduled for Thursday, July 17, at 10 a.m.

Adjournment having been moved and carried, the meeting adjourned at 12:30 p.m.

Attachment A



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