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Terry E. Branstad · Governor  
Kim Reynolds · Lt. Governor

Terry Rich · Chief Executive Officer

# **AGENDA**

## **IOWA LOTTERY BOARD**

**December 21, 2015**

**2:00 pm**

**- Teleconference Only -**

**DIAL IN: 1-866-685-1580**

**CODE: 000 999 0332**

- I. Call to Order
  - a. Approval of Minutes – December 9<sup>th</sup>
- II. RFP – Random Number Generator Drawing System
- III. Adjournment

# MINUTES

## IOWA LOTTERY BOARD

December 9, 2015

10:30 a.m.

The Iowa Lottery Board convened at 10:31 a.m.; Board Chairperson Matt McDermott presiding.

**Board Members Present:**

Matt McDermott, chair; Mary Rathje; Connor Flynn

**Board Members Present on Teleconference:**

Mike Klappholz; Hon. Mike Fitzgerald, ex-officio member

**Board Members Absent:**

Ying Sa (due to conflict with the Accountancy Board Meeting)

**Lottery Staff Present:**

Terry Rich, CEO; Larry Loss, EVP; Cam Coppess, VP, Security; Teri TeBockhorst Wood, VP, Marketing  
Brenda Nye, VP, Finance; Mary Neubauer, VP, External Relations; Hale Strasser, VP, Systems Operations  
Rob Porter, VP, Legal Counsel; David VanCompernelle, Assistant AG; Deb Bassett, Human Resource  
Associate/Board Secretary

**Guests Present:**

Connor Quealy, WHO Radio

**CALL TO ORDER**

Chairperson McDermott called the meeting to order at 10:31 a.m. and roll was taken. There was a quorum. Chairperson McDermott announced the meeting would be held via teleconference in accordance with Iowa Code section 21.8.

Flynn moved to conduct the meeting as an electronic meeting. Rathje seconded. Motion carried unanimously.

**APPROVAL OF MINUTES**

Rathje moved to approve the October 20, 2015 board meeting minutes. Flynn seconded. Motion carried unanimously.

Mike Fitzgerald joined the meeting via teleconference at 10:34 a.m.

**RETAILER COMPENSATION PROGRAM AMENDMENT**

Loss reported that adjustments were needed to the Retailer Compensation Program. The Monopoly Millionaires Club game with bonus is no longer offered so it was removed from the compensation program. The new Lucky For Life game will have bonuses (\$5,000 for top prize, \$500 for second prize) that need to be added to the program. There were other changes made to the document, including: the jackpot level related to a peak sales bonus was adjusted from \$150 million to \$200 million; and to qualify for the Gold Star program, retailers must now carry 16 instant games vs 12 instant games as in the past.

Flynn moved to approve the changes to the Retailer Compensation Program. Rathje seconded. Motion carried unanimously.

#### **PULL TAB PRINTING CONTRACT EXTENSION**

Loss stated the RFP awarded to American Games in January 2014 for Pull Tab printing included contract extension terms. The first contract extension is set to expire on March 31, 2016. Loss asked the Board to approve the request to exercise the 2nd extension that would extend the printing contract with American Games through March 31, 2017.

There was a brief discussion on the number of retailers selling pull tab tickets. It was also noted that the pricing for printing pull tab tickets stays the same with the contract extension.

Rathje moved to approve the Pull Tab Printing Contract Extension. Flynn seconded. Motion carried unanimously.

#### **RANDOM NUMBER GENERATOR (RNG) RFP**

Strasser reported the Lottery is looking at responses to an RFP to replace and modernize the RNGs. A recommendation will be ready to present to the Board next week.

Porter requested there be a 1-item telephonic board meeting in the near future for the request to approve a Notice of Intent to Award to one of the vendors subject to successful completion of a DCI background check. Bassett will follow up with the Board to set a meeting date.

Rich stressed the importance of integrity in the RFP process.

#### **QUARTERLY REPORTS**

##### **Financial:**

Nye presented September and October Financials. Performance Measures show YTD sales thru October are ahead of budget by more than 6%. YTD proceeds are ahead of budget by almost 12%. YTD, instant scratch ticket sales are \$5 million ahead of last year.

##### **Marketing:**

Wood gave an update on this year's 12 week holiday promotion – Holiday Hoopla. To date, sales are up compared to last year's holiday promotion. If the trend continues, it will be a record breaking sales season.

Wood reported the Iowa Gambling Treatment Program has asked the Lottery for help with their Responsible Gifting message during holiday season. As a result of the request, the Lottery provided messages on lottery in-motion screens at retailer locations, donated digital billboard space and a percentage of drive time radio messages. Rich noted in the past, the Lottery spent 3.1% of revenues or \$12 million/year on advertising. Now sales have increased approximately 30% and the Lottery is spending about 2.5% of revenue on advertising.

Wood reported on games that will launch from January to May 2016. These include Lucky For Life (January 24), a bundle promotion (February 14), the Big Ticket (March 7), and a licensed game tied to a movie series (late April or early May). Wood also noted that by June 30, 2016, the Lottery will have a graphically updated website with new logo and new positioning statement.

**Security:**

Coppess provided a Security Report for September – November. Going forward, the report will be improved to be more useful to the Board. McDermott asked about the missing ticket shown in the October report. Coppess explained the investigation process for missing tickets. Rathje asked if the # of thefts contained in the October report (12) was unusually high. Rich stated the majority reported is retailer employee theft. Coppess stated some of those cases may be proven to be unfounded or closed. Future reports will be improved to show the relevance of the initial number.

**Legislative:**

Neubauer provided a handout on the bill request for new code section 99G.12 LOTTERY SELF-SERVICE KIOSKS. Neubauer explained how modern vending machines, including lottery machines involve the use of touchscreens. While the components of the modern lottery machine, when added up, technically meet the definition of a “monitor vending machine” or Touchplay, the two are not the same machine. The new code language defines and grants the Lottery the authority to use the self-service kiosk while leaving in place the ban on Touchplay. The code language also provides for the act to become effective upon enactment to allow time for the self-service kiosks to be ready and in the field by September 2016. The Lottery has made machines available for viewing to the Board, legislators, IGA, PMCI and others. Neubauer will continue the outreach efforts to educate interested parties on the mechanics of the new machines. Neubauer also reported she is monitoring a bill proposed in Congress, HR 707, outlawing internet gaming.

**Legal:**

Porter gave a presentation on the ongoing Hot Lotto investigation involving Eddie Tipton, an Information Security Officer at the Multi State Lottery Association (MUSL). Since the time Eddie Tipton was charged in the Iowa Hot Lotto case, the investigation has expanded to jackpots payouts in other states, including Colorado and Wisconsin.

Rathje move to approve the Quarterly Reports. Flynn seconded. Motion carried unanimously.

**LUCKY FOR LIFE UPDATE**

Loss and Wood provided a report on the launch of the LFL regional game in Iowa at the end of January 2016. On December 14, the Lottery will begin testing software for the game. The Lottery is finalizing the testing protocols for the new game.

Wood stated she is a member of the Marketing Game Group Committee and noted the RFP to find an advertising agency for the national ad campaign is out and the group is interviewing final candidates.

**CEO REPORT**

Rich stated the call-in number for board meetings will change in the near future. Rich encouraged the Board to view the new clover artwork set around the outside of the building. Rich also acknowledged he has authored a private book on innovation and his past history; the book is not about the Lottery.

**ADJOURNMENT**

Flynn moved the meeting be adjourned. Rathje seconded. Motion carried unanimously.

Meeting adjourned at 11:35 a.m.

## Random Number Generator Bid Selection 12/21/2015

The Iowa Lottery received three bids for the provision of a Random Number Generator Drawing System and related services from the following vendors:

- Szrek2Solutions, a Rhode Island-based company;
- SmartPlay, a New Jersey-based company; and
- SCA, a Texas-based company.

A three person committee within the Lottery reviewed and scored the bids submitted. That committee now requests that the Board permit the Iowa Lottery to submit a notice of intent to award the RFP bid to Szrek2Solutions, subject to the company's successful completion of any required background checks.

Of the three bidders, only two submitted compliant bids. SmartPlay's bid did not meet the RFP requirement 3.0.B, *"The hardware: small form factor computers/monitors/keyboards/mice, printers and uninterruptable power supplies, which must fit within the ILA provided cabinet (24" tall x 24" wide x 19 3/4" deep)"*, as the equipment and solution proposed by SmartPlay will not fit in the ILA cabinet.

The Iowa Lottery utilizes transparent storage cabinets for the storage of draw equipment, which are locked with two keys and sealed with audit tags. These cabinets are located in a room with limited physical space. The Iowa Lottery obviously would not allow any proposed modification to the mandatory requirement that would leave draw equipment unsecured. And, any changes to the size of the draw equipment could result in increased cost to the Lottery due to a need to either replace existing cabinets or to increase physical space available for the draw operations. For that reason, SmartPlay's bid was disqualified.

	SCA			SMARTPLAY			SZREK		
	Weighted Score								
	Score 1	Score 2	Score 3	Score 1	Score 2	Score 3	Score 1	Score 2	Score 3
	1890	1660	1260	2030	1770	1645	1645	1900	2030
Technical	1603			1815			1858		
	200	200	250	300	300	300	300	250	300
Bonus Pts	217			300			283		
Tech Total	1820			2115			2142		
Cost Pts	400			600			600		
<b>Total Pts</b>	<b>2220</b>			<b>2715</b>			<b>2742</b>		
	#2			DQ			#1		

Of the three Random Number Generator bids, Szrek2Solutions scored the highest on the technical scoring, earning 2,142 points. SmartPlay was disqualified, but would have received 2,115 points had it submitted a compliant bid. SCA scored 1,820 points.

The lowest cost options submitted by Szrek2 and SmartPlay both cost \$130,000. Szrek2 received the maximum of 600 cost points. Had SmartPlay submitted a compliant bid, SmartPlay would also have received the maximum 600 cost points. The SCA proposal had a cost of \$154,600, resulting in 400 cost points.

As a result, Szrek2Solutions received the highest total score at 2,742. Had SmartPlay submitted a compliant bid, it would have received a total score of 2,715. SCA received a total score of 2,220.

Szrek2Solutions' proposal did a better job of explaining and implementing segregation of job duties, section 3.1.E.vi. Szrek2Solutions utilizes 6 security groups whereas SCA's response to section 3.1.E.vi did not describe how user groups are arranged or segregated.

For section 3.1.I, SCA did not describe the proposed RNG-based Drawing System's user interface. Szrek2Solutions's response to section 3.1.I on the other hand did describe the user interface and provided several screen shots of the user interface.

For these reasons, among others, the RNG RFP committee recommends the selection of Szrek2Solutions bid.