

MEMO

To: Members of the State Government Reorganization Commission

**From: Mary Neubauer
Iowa Lottery
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Date: Nov. 23, 2009

We have been following the work of the State Government Reorganization Commission and thank you for the time you have dedicated to study such a large issue.

We're contacting you in advance of the commission's next meeting to clarify some references in media reports following your meeting in September. We also want to explain the security protocols that require the Iowa Lottery Authority's information-technology functions to remain independent and its purchasing power to remain flexible. At stake is Iowa's ability to participate in Powerball and other multi-jurisdictional games along with the millions of dollars they generate for state programs.

Following your meeting in September, some media reports may have given the impression that the Iowa Lottery does not participate in the state's mass purchasing agreements. In fact, we do that whenever possible because we recognize that cost effectiveness can be achieved. The Lottery has and will continue to purchase through the state's centralized purchasing agreements for a wide range of items including vehicles, computer equipment, copiers, office supplies and cleaning products.

However, the Lottery does have independent purchasing power as well and must maintain that, as it purchases items that no other entity within state government has the authority to procure. Those items include specialized, high security lottery tickets and the vending machines that are used to distribute lottery tickets statewide. Both are bid by public RFP to ensure we receive the best price.

The Lottery's computer servers are separate from any others in state government and must remain that way for security reasons involving the Lottery's continued participation in multi-state games such as Powerball and Hot Lotto. Those two products combined for about \$75.5 million in sales last year, so the impact to the state is significant.

The Lottery has stand-alone computer-processing with an independent internal control system because every connection to an outside source poses a risk that hackers could use in an attempt to compromise our games and the millions of dollars at stake. In addition, the security standards required of lotteries that participate in Powerball mandate independent IT system operation by lottery personnel. Any third-party operators would increase the risk of a security breach and become liable for any ramifications of such a breach, damages for technical mistakes and processing delays. The highest cash payment for a mistake by a lottery vendor to the Iowa Lottery has been \$2.75 million so far. But jackpots as high as \$365 million have been awarded in Iowa Lottery games and will go higher. So, liabilities can run at least that high.

Under any consolidation, DAS or the state of Iowa would become a third-party operator for the Lottery. But by law, the General Fund cannot be used or obligated to stand behind DAS/the state for lottery expenses. To date, the Legislature has decided that the liability risk and potential reduction in lottery income is too great for the savings that might be incurred by consolidation.

Beyond that, there is another issue involved in Powerball that could cause severe operational complications for other state entities if the lottery's computer servers were tied to theirs. If there is ever an accounting discrepancy or a questionable computer situation before a Powerball drawing, lottery security has to secure the computer site until the issue is resolved. The situation is called a lockdown, and all communications have to be shut down, including radio, telephone and television signals, until the problem is resolved.

There have been lockdowns in the past and we're sure there will be more in the future. It's part of what is required to keep Powerball secure. If the Lottery's computer servers were tied to others within state government, all state computer operations would have to be suspended during lottery security lockdowns. That's a complication state government can ill afford.

For the reasons stated above, the Lottery is currently exempted from state information-technology services participation, maintains its own e-mail server, and has independent purchasing authority. We ask that the Reorganization Commission continue to support the Lottery's current status. It's a matter that is vital to the Lottery and its ability to raise proceeds for state programs.

I have mailed a copy of this memo to each of you at your home address. Please note that I will be out of the office for a few weeks to attend to a family matter, but I will ask Joe Hrdlicka from my office to follow up with any of you who have questions about this matter. Joe's telephone number, should you wish to contact him directly, is 515-725-7847.