





# INTEROFFICE MEMO

Gary Grief, Executive Director

Alfonso D. Royal III, Charitable Bingo Operations Director

**To:** J. Winston Krause, Chairman  
Carmen Arrieta-Candelaria, Commissioner  
Doug Lowe, Commissioner  
Peggy A. Heeg, Commissioner  
Robert Rivera, Commissioner

**From:** Mike Fernandez, Administration Division Director *MRF*

**Date:** October 5, 2017

**Re:** **Annual Contract Status Report; and  
Supplemental Status Report for all Major and Prime Contracts**

Texas Administrative Code §401.105(h)(1) requires:

(h) Contract Planning.

(1) The executive director or his/her designee will present the status of all contracts to the Texas Lottery Commission annually for informational purposes. The report is presented at the beginning of each fiscal year.

Texas Government Code Section 2261.254 requires:

CONTRACTS WITH VALUE EXCEEDING \$1 MILLION.

(a) For each contract for the purchase of goods or services that has a value exceeding \$1 million, a state agency shall develop and implement contract reporting requirements that provide information on:

- (1) compliance with financial provisions and delivery schedules under the contract;
- (2) corrective action plans required under the contract and the status of any active corrective action plan; and
- (3) any liquidated damages assessed or collected under the contract.

The attached report provides the status of all agency contracts as of September 1, 2017. In accordance with SB 20, supplemental information is being provided for the fiscal year period 9/1/2016 through 8/31/2017 for all major and prime contracts regarding vendor compliance with financial provisions and deliverable requirements, any active corrective action plans, and liquidated damages or sanctions that have been assessed. Please let me know if you have any questions or need additional information.

MAJOR CONTRACTS

Service or Goods Provided	Vendor	Initial Term	Contract Extensions	Current Expiration	Estimated Annual Cost (current FY)	Total Sanctions or LD's assessed (Prior FY)	Description of Sanctions or LD's assessed (Prior FY)	Compliant with Financial/Delivery Provisions	Corrective Action Plan
Drawing Studio & Production Services	Elephant Productions, Inc.	04/23/2014 - 08/31/2017	09/01/2017 - 08/31/2018 09/01/2018 - 08/31/2019	08/31/2018	\$2,635,178	\$6,000	1) 1/12/2017 - substandard drawing - camera remained on drawing machine allowing viewers to see machine stop mixing lottery balls (\$2,000) 2) 8/2/2017 - Substandard drawing delay in Daily 4 recap on screen (\$2,000) 3) 8/15/2017 - Substandard drawing - Mega Millions not captured in drawing (\$2,000)	Yes	none
Trademark License and Promotional Agreement - Dallas Cowboys Football Club	Frisco Management, LP	03/01/2016 - 02/28/2018	03/01/2018 - 02/28/2020 03/01/2020 - 02/28/2022 03/01/2022 - 02/28/2024 03/01/2024 - 02/28/2026	02/28/2018	\$848,720	\$0	none	Yes	none
Lottery Operations & Services	IGT Global Solutions Corp. dba IGT Solutions Corp.	12/14/2010 - 08/31/2020	09/01/2020 - 08/31/2022 09/01/2022 - 08/31/2024 09/01/2024 - 09/01/2026	9/1/2026	\$109,284,032	\$2,196,527	See attached list	Yes	none
Instant Ticket Manufacturing & Services	IGT Global Solutions Corp. dba IGT Solutions Corp.	09/01/2012 - 08/31/2018	09/01/2018 - 08/31/2021 09/01/2021 - 08/31/2024	08/31/2018	\$10,026,120	\$41,400	1) 9/20/2016 - Non-Conforming Tickets (\$7,500) 2) 12/15/2016 - Non-Conforming Tickets (\$100) 3) 3/28/2017 - Non-Conforming Tickets (\$100) 4) 5/9/2017 - Incorrect Validation Media Prohibiting Validation of Game (\$25,000) 5) 6/29/2017 - Non-Conforming Tickets (\$8,700)	Yes	none
Advertising Services	LatinWorks Marketing, LLC	05/21/2012 - 08/31/2016	09/01/2016 - 08/31/2018 09/01/2018 - 08/31/2020	08/31/2018	\$25,000,198	\$10,000	2/21/2017 - release of media materials without approval (\$10,000)	Yes	none

MAJOR CONTRACTS

Service or Goods Provided	Vendor	Initial Term	Contract Extensions	Current Expiration	Estimated Annual Cost (current FY)	Total Sanctions or LD's assessed (Prior FY)	Description of Sanctions or LD's assessed (Prior FY)	Compliant with Financial/Delivery Provisions	Corrective Action Plan
Internal Audit Services	McConnell & Jones, LLP	01/01/2014 - 12/31/2014	01/01/2015 - 12/31/2015 01/01/2016 - 12/31/2016 01/01/2017 - 12/31/2017	12/31/2017	\$100,000	\$0		Yes	none
Internal Audit Services	McConnell & Jones, LLP	9/1/2017 - 8/31/2018	09/01/2018 - 08/31/2019 09/01/2019 - 08/31/2020 09/01/2020 - 08/31/2021	8/31/2018	\$200,000	\$0	none	Yes	none
Instant Ticket Manufacturing & Services	Pollard Banknote Limited Partnership	09/01/2012 - 08/31/2018	09/01/2018 - 08/31/2021 09/01/2021 - 08/31/2024	08/31/2018	\$8,645,270	\$28,294	1) 9/20/2016 - Non-Conforming Tickets or Partial, Broken, Miscut or Incomplete Packs (\$3,100) 2) 12/15/2016 - Non-Conforming Tickets or Partial, Broken, Miscut or Incomplete Packs (\$3,800) 3) 3/28/2017 - Non-Conforming Tickets or Partial, Broken, Miscut or Incomplete Packs (\$200) 4) 7/14/2017 - Non-Conforming Tickets (\$3,400) 5) 7/14/2017 - Non-conforming tickets (\$17,794)	Yes	none
Trademark License and Promotional Agreement - Dallas Cowboys Football Club	Pro Silver Star Ltd.	03/01/2016 - 02/28/2018	03/01/2018 - 02/28/2020 03/01/2020 - 02/28/2022 03/01/2022 - 02/28/2024 03/01/2024 - 02/28/2026	02/28/2018	\$3,812,180	\$0	none	Yes	none
Instant Ticket Manufacturing & Services	Scientific Games International, Inc.	09/01/2012 - 08/31/2018	09/01/2018 - 08/31/2021 09/01/2021 - 08/31/2024	08/31/2018	\$10,122,430	\$10,600	1) 9/20/2016 - Non-Conforming Tickets or Partial, Broken, Miscut or Incomplete Packs (\$200) 2) 12/15/2016 Non-Conforming Tickets or Partial, Broken, Miscut or Incomplete Packs (\$100) 3) 3/28/2017 - Non-Conforming Tickets (\$100) 4) 6/29/2017 - Non-Conforming Tickets (\$100)	Yes	none

PRIME CONTRACTS

Service or Goods Provided	Vendor	Initial Term	Contract Extensions	Current Expiration	Estimated Annual Cost (current FY)	Total Sanctions or LD's assessed (Prior FY)	Description of Sanctions or LD's assessed (Prior FY)	Compliant with Financial/Delivery Provisions	Corrective Action Plan
Trademark License & Promotional Agreement - Texas Lottery Live! Game	Alchemy 3, LLC	10/28/2015-09/30/2017	none	09/30/2017	\$0	\$0	none	Yes	none
Promotional and Sponsorship Agreement for Irving Music Factory	ARK Group of Irving, Inc.	04/18/2017 - 08/31/2027	none	08/31/2027	\$518,000	\$0	none	yes	none
Promotional Products (Primary Vendor)	Beehive Specialty	09/25/2014 - 09/24/2017	09/25/2017 - 09/24/2018	09/24/2018	\$1,135,658	\$0	none	Yes	none
Document Management Services	Canon Solutions America, Inc.	12/23/2011 - 12/22/2016	12/23/2016 - 12/22/2017	12/22/2017	\$74,263	\$0	none	Yes	none
Promotional Products (Secondary Vendor)	CFI Manufacturing, LP	09/25/2014 - 09/24/2017	09/25/2017 - 09/24/2018	09/24/2017	\$0	\$0	none	Yes	none
Parking Agreement	City of Austin	10/01/2015 - 09/30/2020		09/30/2020	\$215,640	\$0	none	Yes	none
Lottery Drawings CPA Services	DK Partners, PC	09/01/2013 - 08/31/2018	none	08/31/2018	\$1,041,736	\$222	1) 3/6/2017 - auditor late arrival resulting in delay of pre-draw or draw activity (\$222)	Yes	none
Document Management Services	Dahill Office Technology Corporation	07/20/2017 - 08/31/2022					none		
Internal Control System & Related Services	Elsym Consulting, Inc.	02/08/2011 - 08/31/2020	09/01/2020 - 08/31/2022 09/01/2022 - 08/31/2024 09/01/2024 - 08/31/2026	08/31/2020	\$192,000	\$0	none	Yes	none
Risk Review & Compliance Monitoring Services	Grant Thornton, LLP	02/07/2012 - 08/31/2016	09/01/2016 - 08/31/2017 09/01/2017 - 08/31/2018 09/01/2018 - 08/31/2019 09/01/2019 - 08/31/2020 09/01/2020 - 08/31/2021	08/31/2017	\$0	\$0	none	Yes	none
Risk Review & Compliance Monitoring Services	Grant Thornton, LLP	09/01/2017 - 08/31/2019	09/01/2019 - 08/31/2020 09/01/2020 - 08/31/2021 09/01/2021 - 08/31/2022	08/31/2019	\$250,000	\$0	none	Yes	none
Trademark License & Promotional Agreement - Houston Texans	Houston NFL Holdings, LP	04/25/2016 - 06/30/2017	07/01/2017 - 06/30/2018 07/01/2018 - 06/30/2019 07/01/2019 - 06/30/2020 07/01/2020 - 06/30/2021	06/30/2017	\$1,485,750	\$0	none	Yes	none
Lease Agreement - Austin Headquarters	Lynx Grant, LLC	05/08/1997 - 05/07/2000	05/08/2000 - 05/07/2005 05/08/2005 - 05/07/2010 05/08/2010 - 05/07/2020	05/07/2020	\$2,376,341	\$0	none	Yes	none



**Sanction and LD Totals - FY17**

<b>Sanction / LD No.</b>	<b>Sanction/LD Title</b>	<b>Amount Assessed</b>	<b>Incidents Assessed</b>
3.60.7	Failure to produce accurate records or provide accurate information	\$201,500.00	385
3.60.8	Failure to produce timely records and/or information	\$0.00	0
3.60.14	Failure to report significant incidents and anomalies	\$28,000.00	26
3.60.17	Failure to correct audit and/or compliance finding	\$0.00	0
3.60.19	Failure to comply with Title 1 TAC 202 Information Security Standards	\$0.00	0
3.60.21	Failure to perform retailer training	\$0.00	0
3.60.22	Failure perform retailer retraining	\$0.00	0
3.60.23	Failure to implement new on-line games	\$0.00	0
3.60.25	Failure to update jackpot amount throughout the Lottery Gaming System	\$179,000.00	6
3.60.26	Lottery gaming System inability to cash winning tickets at a retailer location (All on-line games or all instant ticket games)	\$33,000.00	4
3.60.27	Lottery gaming System inability to cash winning tickets at a retailer location (Specific on-line game or one or more instant ticket games)	\$0.00	0
3.60.28	Lottery Gaming System inability to cash winning tickets at a Texas Lottery Claim Center	\$174,000.00	8
3.60.29	Inability of the Lottery Gaming System to conduct retailer licensing, inventory, accounting, or other management functions	\$66,500.00	18
3.60.30	Performance Degradation	\$0.00	0
3.60.31	Failure to test backup Lottery Gaming System	\$0.00	0
3.60.32	Failure of the Lottery Gaming System to execute planned on-line promotion	\$0.00	0
3.60.33	Failure to provide software fixes and/or enhancements	\$51,000.00	2
3.60.34	Failure to implement change or release management as required under RFP Section	\$0.00	0
3.60.35	Failure to comply with Title 1 TAC 202 resulting in a security incident	\$0.00	0
3.60.36	Failure to provide new reports and/or to modify existing reports	\$0.00	0
3.60.37	Inability of the Internal Control System to update Lottery applications	\$242,000.00	26
3.60.38	Out-of-balance condition between ICS and Lottery Gaming System	\$0.00	0
3.60.39	Failure to load debt, credit and/or new retailer files from the Texas Lottery into the Lottery Gaming System	\$142,000.00	4
3.60.42	Inability of the Lottery Gaming System to produce accurate terminal reports or make terminal reports available	\$120,000.00	14
3.60.43	Failure to install, relocate or remove Lottery sales and/or validation equipment	\$3,900.00	5
3.60.44	Failure to install, relocate or remove Lottery non-sales equipment	\$200.00	2
3.60.45	Failure to resolve a Lottery non-sales equipment problem within the specified	\$0.00	0
3.60.46	Call Center answer time	\$17,175.00	685
3.60.47	Call Center busy signal time	\$14,525.00	581
3.60.48	Call Center abandonment rate	\$7,375.00	295
3.60.49	Call Center hold time	\$23,100.00	924
3.60.50	Call Center availability	\$0.00	0
3.60.51	LSR visits	\$0.00	0
3.60.53	Failure to properly process or assign on-line ticket stock	\$0.00	0
3.60.54	Improperly processed packs of instant tickets	\$39,200.00	374
3.60.55	Failure to support a promotional event	\$5,000.00	1
3.60.56	Inability to program the programmable signs	\$0.00	0
3.60.57	Inability of the programmable signs to communicate	\$2,000.00	1
3.60.58	Failure to load instant game files within specified timeframe	\$9,000.00	1
3.60.59	Instant ticket packs not delivered to Texas Lottery retailers	\$95,900.00	137
3.60.60	Instant ticket packs not returned to the warehouse	\$27,700.00	277
3.60.61	Warehouse instant ticket return verification	\$108,000.00	1031
3.60.62	Failure to timely provide accurate annual instant ticket inventory report	\$0.00	0
3.60.65	Failure to deliver according to final detailed conversion plan	\$0.00	0
3.60.66	Failure to update ES Multi-Media system messages or inaccurate ESMM messages	\$60,000.00	12
3.60.67	Failure to maintain LSR staff-to-retailer ratio	\$0.00	0
3.60.68	Failure to provide IVR system changes and/or enhancements	\$0.00	0
3.60.69	Failure to update winning numbers for each draw game in the IVR system	\$17,600.00	9
3.60.70	Failure to conduct Promotion Second Chance drawings in accordance with Texas Lottery approved procedures	\$20,000.00	2
3.60.71	Invalid drawings	\$0.00	0
3.60.72	Failure to provide entry data timely	\$0.00	0
3.60.73	Failure to Resolve an Instant Ticket Conveyor System or GNIE System Problem	\$0.00	0
3.61.5	On-Line game unavailability	\$0.00	0
3.61.6	Inability of the Texas Lottery retailer terminals to communicate with the Lottery Gaming System	\$51,065.84	47
3.61.7	Failure to resolve terminal and related sales equipment problems	\$348,931.31	8374
3.61.8	Unassigned packs of instant tickets missing from the warehouse	\$39,100.00	102
3.61.9	Inability of the Lottery Gaming System to confirm or activate instant ticket packs	\$69,754.93	32
<b>Totals</b>		<b>\$2,196,527.08</b>	<b>13385</b>