

# Arkansas

Scholarship Lottery

"A Natural State of Fun!"

ARKANSAS LOTTERY  
COMMISSION

Dianne Lamberth,  
Chair

July 11, 2011

Mike Malone,  
Vice Chair

The Honorable Mike Beebe  
Governor of Arkansas  
State Capitol  
Little Rock, AR 72201

Ben Pickard,  
Secretary/Treasurer

John C. (Smokey)  
Campbell III

RE: Monthly Disclosure Reports

Bruce R. Engstrom

Dear Governor Beebe:

Steve Faris

On behalf of our agency and the Commissioners of the Arkansas Lottery Commission, please accept the attached monthly disclosure reports pursuant to §§ 23-115-206 and 23-115-302 for the month of June 2011. The report contains the following information:

Raymond Frazier

George Hammons

1. Contracts Awarded
2. Debt Set-Off Collections
3. Retailer Losses
4. Breakdown of Lottery Sales per County
5. Total Number of Retailers
6. Total Lottery Revenue
7. Prize Disbursements
8. Operating Expenses
9. Net Assets
10. Administrative Expenses
11. Unclaimed Prize Report
12. Arkansas Scholarship Lottery Minority- and Female-owned Business Report
13. Arkansas Scholarship Lottery Vendor Minority- and Female-owned Business Report
14. Arkansas Scholarship Lottery Demographics
15. Internal Auditor Report
16. Instant Ticket Games Released

Patty L. Shipp

Ernie Passailaigue,  
Director

Respectfully submitted,



Ernie Passailaigue  
Director, Arkansas Lottery Commission

Enclosures

cc: Ms. Dianne Lamberth, Chair  
Arkansas Lottery Commission

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Director

July 11, 2011

The Honorable Johnny Key, Chair  
Arkansas Lottery Commission Legislative Oversight Committee  
One Capitol Mall, Room R-501  
Little Rock, AR 72201

RE: Monthly Disclosure Reports

Dear Senator Key:

On behalf of our agency and the Commissioners of the Arkansas Lottery Commission, please accept the attached monthly disclosure reports pursuant to §§ 23-115-206 and 23-115-302 for the month of June 2011. The report contains the following information:

1. Contracts Awarded
2. Debt Set-Off Collections
3. Retailer Losses
4. Breakdown of Lottery Sales per County
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15. Internal Auditor Report
16. Instant Ticket Games Released

Please call me if you have any questions or need additional information.

Respectfully submitted,



Ernie Passailaigue  
Director, Arkansas Lottery Commission

Enclosures

cc: Ms. Dianne Lamberth, Chair  
Arkansas Lottery Commission

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Ernie Passailaigue,  
Director

July 11, 2011

The Honorable Mark Perry, Chair  
Arkansas Lottery Commission Legislative Oversight Committee  
One Capitol Mall, Room R-501  
Little Rock, AR 72201

RE: Monthly Disclosure Reports

Dear Representative Perry:

On behalf of our agency and the Commissioners of the Arkansas Lottery Commission, please accept the attached monthly disclosure reports pursuant to §§ 23-115-206 and 23-115-302 for the month of June 2011. The report contains the following information:

1. Contracts Awarded
2. Debt Set-Off Collections
3. Retailer Losses
4. Breakdown of Lottery Sales per County
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16. Instant Ticket Games Released

Please call me if you have any questions or need additional information.

Respectfully submitted,



Ernie Passailaigue  
Director, Arkansas Lottery Commission

Enclosures

cc: Ms. Dianne Lamberth, Chair  
Arkansas Lottery Commission

**Arkansas Lottery Commission Term Contracts for Goods and Services  
June 2011**

1. On June 15, 2011, The Arkansas Lottery Commission entered into a Non-Exclusive Licensing Agreement with Scientific Games International to allow the ALC to reproduce, use, and make copies of the "Wheel of Fortune" licensed property. This agreement has been provided to the Arkansas Lottery Commission Legislative Oversight Committee under separate cover letter.

2. On June 28, 2011, the Arkansas Lottery Commission and Intralot, Inc., through National Software Escrow, entered into a Software Escrow Agreement to ensure ALC has access to certain proprietary computer software programs and related documentation in the event Intralot, Inc. is unable to satisfy its obligations. A copy of that agreement, Software Escrow Agreement Number 7022, is attached.

National  Software Escrow

June 29, 2011

Toula Argentis  
Intralot, Inc.  
11360 Technology Circle  
Duluth, GA 30097

Dear Toula:

Thank you for selecting NSE for your Software Escrow needs.

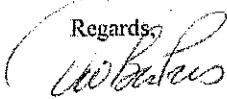
This letter is written to inform you that National Software Escrow, Inc. has received the Materials that are to be deposited into escrow for the fulfillment of Software Escrow #7022 by and between Intralot, Inc. and Arkansas Lottery Commission.

The Escrow Materials have been deposited into the offsite storage facility.

Please call me at (440) 546-9750 if you have any questions.

We appreciate both organizations' confidence in National Software Escrow, Inc.

Regards,



David P. Baka  
President

DB/dac

Cc: E. Passailaigue

When your most  
valuable asset  
is information

# National Software Escrow

## SOFTWARE ESCROW AGREEMENT

NUMBER 7022

This Escrow Agreement made and effective as of this 28 day of JUNE 2011 ("Effective Date"), among NATIONAL SOFTWARE ESCROW, INC., an Ohio Corporation, ("The ESCROW AGENT") and INTRALOT, INC. ("The TECHNOLOGY VENDOR") and; ARKANSAS LOTTERY COMMISSION ("The BENEFICIARY").

A. The TECHNOLOGY VENDOR and the BENEFICIARY have entered into an Online Lottery Game Services and Lottery Gaming System and Services Request for Proposal attached hereto as Exhibit A, both of which are incorporated by reference (the "Online RFP").

B. By the Online RFP, the TECHNOLOGY VENDOR granted the BENEFICIARY for its use a license to use certain computer software program(s) and related documentation which are proprietary to the TECHNOLOGY VENDOR and access to which must be restricted to protect its business.

C. The TECHNOLOGY VENDOR has maintenance and upgrade obligations to BENEFICIARY as provided by the Online RFP.

D. The BENEFICIARY must have access to those materials identified in this Agreement if TECHNOLOGY VENDOR is unable to satisfy its obligations as set forth in the Online RFP

F. To address the respective needs of the TECHNOLOGY VENDOR and BENEFICIARY, the TECHNOLOGY VENDOR and BENEFICIARY in consideration of the promises and the mutual covenants contained herein, have agreed to escrow Deposit Materials with the ESCROW AGENT and ESCROW AGENT agrees to accept and to likewise be bound as follows:

### 1.0 DEFINITIONS

1.1 "Source Code" means a form suitable for reproduction by computer and/or photocopy equipment, and consists of a full source language

statement of the Program or Programs as initially installed by BENEFICIARY or as later revised, updated or improved comprising the product and any existing Program maintenance documentation, including all flow charts, schematics and annotations which comprise the precoding detailed design specifications and all other materials necessary to allow a reasonably skilled third-party programmer to maintain or enhance the product without the help of any other person or reference to any other material.

1.2 "Programs" means one of the computer software programs identified by TECHNOLOGY VENDOR to ESCROW AGENT as being a program for purposes of this Agreement. This includes any program so identified in Exhibit A attached hereto and any additional program that TECHNOLOGY VENDOR identifies in a deposit form (Form 2.1) that it submits to ESCROW AGENT as a deposit as hereinafter provided. A given Program includes all components thereof and all Updates therefore (as hereinafter defined). A given Program includes any different versions thereof for different users, user agents, and operating systems.

1.3 "Default" means one or more of the developments or events specified in 3.0 of this Agreement.

1.4 "Deposit Materials" includes, but is not limited to, the source code; control procedures for software change management and documentation, including updated service and operational manuals, written procedures and all updates to the source code and any other information deemed necessary for the operation of the online lottery system as included in the Online RFP attached hereto as Exhibit A, or otherwise identified on Form 2.1, as the case may be. Deposit Materials must be readable and useable in their current form or, if any portion is encrypted, the decryption tools and decryption keys must also be deposited and separately identified as such on Form 2.1 attached; and must include a current version of any Source Code for all software licensed under the Online RFP and all updates thereto, together with



all documentation necessary to enable a reasonably skilled programmer to maintain such licensed software, and descriptions of all compilers, assemblers and other computer programs and related documentation and other materials that are necessary or useful to use, modify and prepare derivative works of such Source Code.

1.5 "Notice of Default" means a written notice issued by BENEFICIARY to both TECHNOLOGY VENDOR and ESCROW AGENT, which complies with Section 8.15 and further, that identifies the Online RFP and this Escrow Agreement, specifies the Default with reasonable specificity under Section 3.1 A, B, or C, identifies the Deposit Materials and demands the delivery of a complete copy of the Deposit Materials to the BENEFICIARY.

1.6 "Updates" mean any release, improvement, revision, enhancement, update, or module generally made available by the TECHNOLOGY VENDOR for a Program.

1.7 "Online RFP" means the contract between BENEFICIARY and TECHNOLOGY VENDOR identified in Recital A above.

## 2.0 DEPOSIT OF DEPOSIT MATERIALS

2.1 Upon execution of this Agreement, the TECHNOLOGY VENDOR agrees to deposit as required by this Agreement and the ESCROW AGENT agrees to accept the Deposit Materials for the licensed Program(s) as listed in Form 2.1, attached hereto and made a part hereof. In addition, from time to time hereafter, the TECHNOLOGY VENDOR will deposit with the ESCROW AGENT all necessary and appropriate improvements, revisions, enhancements, or updates for the Deposit Materials so that, at all times, the Deposit Materials will correspond with the Programs actually distributed to BENEFICIARY.

2.2 TECHNOLOGY VENDOR represents and warrants that:

A. The items listed in Form 2.1 attached hereto complies with the definition of Deposit Materials as defined in 1.4 of this Agreement and constitutes the Deposit Materials and documentation of the licensed Program(s) subject to the Online RFP.

B. The Deposit Materials delivered to the ESCROW AGENT are in a form suitable for

reproduction by computer and/or photocopy equipment

C. The Deposit Materials initially delivered to the ESCROW AGENT include all necessary materials to permit a reasonably skilled third party programmer to recreate executable version(s) of licensed Program(s) from the Source Code.

D. The Deposit Materials are not subject to any lien or other encumbrance, and any liens or encumbrances made after the execution of this Agreement will not prohibit, limit, or alter the rights and obligations of ESCROW AGENT under this Agreement.

2.3 The TECHNOLOGY VENDOR covenants that:

A. The TECHNOLOGY VENDOR shall provide written notification to the BENEFICIARY within ten (10) days of its intended deposits of updates, enhancements or other modifications to the Deposit Materials escrowed with the ESCROW AGENT

B. With regard to Deposit Materials, the TECHNOLOGY VENDOR will conspicuously label as "Source Code" both initial and subsequent deliveries of tangible media, which comprise Source Code as defined by this Agreement.

C. The TECHNOLOGY VENDOR will complete Form 2.1 and submit both it and the original, along with revised, updated or improved copies of the Deposit Materials to the ESCROW AGENT. Additionally, the TECHNOLOGY VENDOR will simultaneously send a copy of Form 2.1 to BENEFICIARY when the foregoing is sent to ESCROW AGENT.

D. The TECHNOLOGY VENDOR will promptly supplement the Deposit Materials with all revisions, corrections, enhancements, or other changes so that the Deposit Materials constitute a human readable program for the current release of the licensed Program to which this agreement relates.

E. The TECHNOLOGY VENDOR will both initially and in subsequent deliveries of Deposit Materials to the ESCROW AGENT deliver all necessary materials to permit a reasonably skilled third party programmer to recreate executable version(s) of licensed Program(s) from the Deposit Materials.

National Software Escrow, Inc.

8225 Brecksville Road, Building Three, Suite 105 • Brecksville, Ohio 44141  
(440) 546-9750 • Fax (440) 546-0207 • [www.nationalsoftwareescrow.com](http://www.nationalsoftwareescrow.com)



F. Upon request of the BENEFICIARY, the TECHNOLOGY VENDOR must verify and certify that the Deposit Materials deposited accurately and completely comprise the Source Code and related documentation needed to support the current version(s) of the Software.

G. The BENEFICIARY shall be entitled to observe and inspect the deposited materials.

2.4 The ESCROW AGENT covenants that:

A. The ESCROW AGENT will issue to the TECHNOLOGY VENDOR and BENEFICIARY a receipt for the initial Deposit Materials and for each subsequent deposit.

B. The ESCROW AGENT will use its best efforts for the storage, maintenance and safety of the Deposit Materials as used in the industry.

C. The Deposit Materials will be stored, maintained and preserved in a secure and climatized storage facility containing, at a minimum, the following:

- (i) Certified Halon fire suppression system;
- (ii) Computer-controlled humidity and temperature levels;
- (iii) Vault and building monitored by 24-hour surveillance and security systems;
- (iv) Key punch access restricting access throughout the vault; and
- (v) Air filtration system.

D. The ESCROW AGENT will hold the Deposit Materials free of access of any other person unless Section 3.0 Defaults and Release from Escrow, and Section 4.0 Disputes, have been satisfied.

2.5 The BENEFICIARY and TECHNOLOGY VENDOR both acknowledge and agree that:

A. The ESCROW AGENT has no duty to verify that TECHNOLOGY VENDOR has appropriately provided Deposit Materials as required by this Agreement to it.

B. This Agreement does not transfer TECHNOLOGY VENDOR's right, title or interest in the Deposit Materials or its related documentation to BENEFICIARY and TECHNOLOGY VENDOR may

at its sole discretion except as limited by the Online RFP, own, possess and secure the original Deposit Materials.

### 3.0 DEFAULTS AND RELEASE FROM ESCROW

3.1 Any of the following will constitute a Default by the TECHNOLOGY VENDOR of its obligation and responsibilities to the BENEFICIARY.

A. The TECHNOLOGY VENDOR is unable to correct any operational defect in the Program which prevents it from functioning in accordance with the applicable specifications, documentation, performance criteria and other warranties and descriptions provided in the Online RFP within sixty (60) days, or such longer period of time as the Technology Vendor and Beneficiary may agree to based upon circumstances giving rise to the Operational Defect, after the BENEFICIARY has notified the TECHNOLOGY VENDOR of such failure, specifying in reasonable detail the respects in which the program fails to perform.

B. The TECHNOLOGY VENDOR is unable to discharge any of its maintenance obligations to the licensed Program in accordance with the warranties or other standards for such maintenance set forth in either the Online RFP or, if applicable, a written software maintenance agreement which may then be in effect between the TECHNOLOGY VENDOR and the BENEFICIARY within sixty (60) days, or such longer period of time as the Technology Vendor and Beneficiary may agree to based upon circumstances giving rise to the Operational Defect, after the BENEFICIARY'S notice to the TECHNOLOGY VENDOR specifying in reasonable detail the respects in which the program is not being properly maintained.

C. The BENEFICIARY has reasonable cause to believe that any one of the following events will cause the TECHNOLOGY VENDOR to fail to meet its warranty and maintenance obligations:

- (i) insolvency;
- (ii) general assignment for benefit of creditors;
- (iii) receiver appointment;
- (iv) assets become subject to insolvency proceeding;
- (v) wind-up or business liquidation.



3.2 On the happening of one or more Events of Default as described in the Online RFP, the BENEFICIARY shall give written Notice of Default as provided by this Agreement to both the ESCROW AGENT and the TECHNOLOGY VENDOR of that Default. The Notice of Default shall be labeled a "Notice of Default," shall identify the Online RFP and this Escrow Agreement, shall specify the nature of Default, shall identify the Deposit Materials with reasonable specificity, and shall demand the delivery of a complete copy of the Deposit Materials to the BENEFICIARY.

Upon receipt of the Notice of Default the ESCROW AGENT shall likewise send a copy of the Notice of Default to the TECHNOLOGY VENDOR by certified or registered mail, return receipt requested. If the TECHNOLOGY VENDOR desires to dispute the Notice of Default, the TECHNOLOGY VENDOR shall, within ten (10) days after receipt thereof, deliver to the ESCROW AGENT an affidavit or other sworn statement stating that in the TECHNOLOGY VENDOR'S view, no Default has occurred.

If the ESCROW AGENT does not receive an affidavit or other sworn written statement from the TECHNOLOGY VENDOR stating that the TECHNOLOGY VENDOR does not believe there has been a Default, within the time permitted by Section 3.2, the ESCROW AGENT is authorized and directed by TECHNOLOGY VENDOR to deliver the Deposit Materials to the BENEFICIARY. The ESCROW AGENT shall deliver the Deposit Materials to the BENEFICIARY in the same medium as delivered to the ESCROW AGENT by the TECHNOLOGY VENDOR. The ESCROW AGENT'S responsibility for the Deposit Materials ceases upon release of the Deposit Materials to the BENEFICIARY, and the ESCROW AGENT is not responsible for any inability by the BENEFICIARY to successfully utilize the Deposit Materials after release.

Unless otherwise provided in the Online RFP, upon release of the Deposit Materials, the BENEFICIARY shall have the right to use the Deposit Materials for the sole purpose of continuing the benefits afforded to the BENEFICIARY by the Online RFP. The BENEFICIARY shall be obligated to maintain the confidentiality of the released Deposit Materials and even though the Deposit Materials have been released or otherwise, this Agreement will not constitute a termination, renewal, or otherwise of the Online RFP.

3.3 In the event that the ESCROW AGENT becomes insolvent, makes a general assignment for

the benefit of creditors, or suffers or permits the appointment of a receiver for its business, where its assets become subject to any proceeding under any insolvency law, domestic or foreign, or has wound up or liquidated its business, the ESCROW AGENT shall notify both the BENEFICIARY and TECHNOLOGY VENDOR of the occurrence. The BENEFICIARY and TECHNOLOGY VENDOR will each use its best efforts to find another suitable party to serve as a replacement ESCROW AGENT.

In the event that the TECHNOLOGY VENDOR becomes insolvent, makes a general assignment for the benefit of creditors, or suffers or permits the appointment of a receiver for its business, where its assets become subject to any proceeding under any insolvency law, domestic or foreign, or has wound up or liquidated its business, the TECHNOLOGY VENDOR shall notify both the BENEFICIARY and ESCROW AGENT immediately of the occurrence. Should such an event occur, the BENEFICIARY and TECHNOLOGY VENDOR agree that the ESCROW AGENT shall provide the BENEFICIARY immediate access to the Deposited Materials from the ESCROW AGENT without prior notice or right to protest from the TECHNOLOGY VENDOR.

3.4 The ESCROW AGENT has no obligation to release the copy of the Deposit Materials to any third-party that is not a party to this Agreement except as required by law or court order.

3.5 The TECHNOLOGY VENDOR acknowledges that the ESCROW AGENT has the right to maintain the Deposit Materials in the ESCROW AGENT'S possession and to provide such Deposit Materials to the BENEFICIARY for the fulfillment of this Agreement between the TECHNOLOGY VENDOR and the BENEFICIARY.

#### 4.0 DISPUTES

4.1 If the TECHNOLOGY VENDOR provides to ESCROW AGENT and BENEFICIARY within the time permitted by Section 3.2 an affidavit or other sworn statement in response to the Notice of Default disputing the existence of any Default, the ESCROW AGENT will not release the Deposit Materials until it receives joint instructions from the TECHNOLOGY VENDOR and the BENEFICIARY requiring or authorizing such release.

Both parties agree that the ESCROW AGENT is directed to act in accordance with the above determination and to be entirely protected from



any adverse results of such actions even if a court should later determine their rights differently.

#### 5.0 PAYMENT AND INDEMNIFICATION OF THE ESCROW AGENT

5.1 The ESCROW AGENT must be paid for its services in accordance with Exhibit B, attached hereto and titled "PRICE SCHEDULE." The ESCROW AGENT shall not be required to perform any service, including release of any Deposit Materials, unless the payment for such service and any outstanding balances owed to the ESCROW AGENT have been paid in full. Initial fees are due upon receipt of a signed contract or receipt of the Deposit Materials whichever is earliest.

The "PRICE SCHEDULE" attached hereto as Exhibit B may be modified and updated at the discretion of the ESCROW AGENT. The ESCROW AGENT shall provide ninety (90) days notice to the TECHNOLOGY VENDOR and BENEFICIARY in the event the "PRICE SCHEDULE" is modified or updated.

If the TECHNOLOGY VENDOR fails to pay an invoice addressed to it for services under this Agreement within thirty (30) days of its issue, the ESCROW AGENT reserves the right to give the TECHNOLOGY VENDOR written notice to pay the outstanding invoice within 30 days. If the TECHNOLOGY VENDOR fails to pay the outstanding invoice upon the expiration of the 30 day cure period, the ESCROW AGENT will give the BENEFICIARY a period of fifteen (15) days to pay the TECHNOLOGY VENDOR'S outstanding invoice. If the TECHNOLOGY VENDOR'S invoice remains outstanding upon the expiration of the fifteen (15) day payment period offered to the BENEFICIARY, this Agreement will automatically and immediately terminate.

The ESCROW AGENT shall not be obligated or required to examine or inspect the Deposit Materials. The ESCROW AGENT'S obligation shall be limited to providing the same degree of care for the Deposit Materials as it maintains for its valuable documents and those of its customers lodged in the same location.

The ESCROW AGENT may rely upon and shall be protected by the BENEFICIARY and TECHNOLOGY VENDOR in acting upon any written notice, request, waiver, consent, receipt, or other paper or document furnished to it not only in assuming its due execution, but also as to the truth of any information contained therein.

#### 6.0 OWNERSHIP OF DEPOSIT MATERIALS

6.1 The ESCROW AGENT shall be the legal owner of the tangible medium comprising the escrowed Deposit Materials, but not the Deposit Materials itself nor the documentation and other information embodied in such tangible medium, upon receipt of such material and at all times until the Deposit Materials are returned to the TECHNOLOGY VENDOR or otherwise released in accordance with the terms of this Agreement, subject only to the claims of TECHNOLOGY VENDOR and BENEFICIARY as described herein.

6.2 The ESCROW AGENT, the TECHNOLOGY VENDOR and the BENEFICIARY recognize and acknowledge that ownership of the Deposit Materials itself and any programmer documentation (together with all copyright rights and proprietary rights therein) shall continue as belonging to the TECHNOLOGY VENDOR at all times.

6.3 The ESCROW AGENT has the right to make copies or reproduce the Deposit Materials only as is reasonably necessary to perform or fulfill the terms of this Agreement.

#### 7.0 TERM AND TERMINATION

7.1 The initial term of this Agreement is for a period of one (1) year. Thereafter, this Agreement shall automatically renew from year-to-year for a period not to exceed seven (7) years unless (a) the TECHNOLOGY VENDOR and the BENEFICIARY jointly instruct the ESCROW AGENT in writing that the Agreement is terminated; (b) the ESCROW AGENT instructs the TECHNOLOGY VENDOR and the BENEFICIARY in writing that the Agreement is terminated for nonpayment in accordance with Section 5.1; or (c) the ESCROW AGENT reserves the right to terminate this Agreement, for any reason, other than nonpayment, by providing the TECHNOLOGY VENDOR and the BENEFICIARY ninety (90) days written notice of its intent to terminate this Agreement.

7.2 Upon termination of this Agreement or if a copy of the Deposit Materials is delivered to the BENEFICIARY pursuant to the Notice of Default procedures set forth herein, the ESCROW AGENT'S duties with respect to such Deposit Materials shall terminate on the date of such delivery.

7.3 Upon termination of this Agreement, the obligations of confidentiality with regards to the Deposit Materials, obligations of the TECHNOLOGY



VENDOR and BENEFICIARY to pay any fees and expenses due to the ESCROW AGENT, and all terms of Section 8.0 "GENERAL TERMS" of this Agreement survive and remain binding on the TECHNOLOGY VENDOR, BENEFICIARY, and ESCROW AGENT

#### 8.0 GENERAL

8.1 Except as provided in this Agreement, the ESCROW AGENT agrees that it shall not divulge or disclose or otherwise make available to any third person whatsoever, or make any use whatsoever of the Deposit Materials without the express prior written consent of the TECHNOLOGY VENDOR.

8.2 The ESCROW AGENT shall not, by reason of its execution of this Agreement, assume any responsibility or liability for any transactions between the TECHNOLOGY VENDOR and the BENEFICIARY other than for the performance of its obligations with respect to the Deposit Materials held by it in accordance with this Agreement.

8.3 THE ESCROW AGENT HEREBY DISCLAIMS THE UNIFORM COMMERCIAL CODE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND ANY AND ALL OTHER EXPRESS OR IMPLIED WARRANTIES OF ANY NATURE OR KIND.

8.4 The ESCROW AGENT'S liability to the TECHNOLOGY VENDOR and the BENEFICIARY shall be limited to the safe return of the Deposit Materials to whichever is entitled to it by agreement between them, or performing its obligations under Section 2.4 of this Escrow Agreement. IN NO EVENT SHALL THE ESCROW AGENT BE LIABLE FOR PUNITIVE, CONSEQUENTIAL OR OTHER DAMAGES TO EITHER THE TECHNOLOGY VENDOR OR THE BENEFICIARY. DAMAGES SHALL BE LIMITED TO THE SUM OF ALL ESCROW FEES PREVIOUSLY PAID BY THE TECHNOLOGY VENDOR AND THE BENEFICIARY UNDER THE TERMS OF THIS ESCROW AGREEMENT.

8.5 This Escrow Agreement shall not be waived, amended, or modified except by written agreement of all of the parties hereto. Any invalidity in whole or in part of any provision of this Escrow Agreement will not affect the validity of any of its other provisions.

8.6 All notices required to be given hereunder shall be in writing and shall be given by certified or registered mail, return receipt

requested, to the parties at their respective addresses as indicated in this agreement or to such other address that shall be specified in writing in a notice to all of the other parties.

8.7 All parties of this Agreement represent and warrant that the execution, delivery and performance of this Agreement have been duly authorized and signed by a person approved to sign on behalf of the respective party as named.

8.8 All disputes involving a State cause of action against BENEFICIARY or to which BENEFICIARY is a party which arise under this Agreement must be filed in the state court located in Pulaski County, Arkansas, which shall have exclusive jurisdiction over state law matters. All disputes involving a State cause of action between the ESCROW AGENT and the TECHNOLOGY VENDOR which arise under this Agreement must be filed in the state court located in Cuyahoga County, Ohio, which shall have exclusive jurisdiction over state law matters. Notwithstanding the foregoing and Section 8.9 below, jurisdiction, venue and forum (mediation, arbitration, litigation, administrative proceeding) etc. for any disputes solely as between TECHNOLOGY VENDOR and BENEFICIARY (and specifically excluding ESCROW AGENT) shall be construed and determined in accordance with the laws of the State of Arkansas and subject to the terms set forth in the Online RPP.

8.9 All disputes involving a Federal cause of action arising under this Agreement to which the BENEFICIARY is a party must be filed in the Eastern District of Arkansas, Western Division, which shall have exclusive jurisdiction over federal matters. All disputes involving a Federal cause of action arising under this Agreement between ESCROW AGENT and TECHNOLOGY VENDOR must be filed in the Northern District of Ohio, which shall have exclusive jurisdiction over federal matters. The TECHNOLOGY VENDOR and ESCROW AGENT expressly waive any and all objections to personal jurisdiction in this venue. The parties irrevocably submit to such federal court's jurisdiction hereby waiving any claim of inconvenient forum.

8.10 The ESCROW AGENT shall not be liable for any failure to perform its obligations in connection with this Agreement if such failure results from any act of God, riot, war, civil unrest, flood, earthquake, or other cause beyond such party's reasonable control including any mechanical, electronic, or communications failure.

National Software Escrow, Inc.

8225 Brecksville Road, Building Three, Suite 105 • Brecksville, Ohio 44141  
(440) 546-9750 • Fax (440) 546-0207 • [www.nationalsoftwareescrow.com](http://www.nationalsoftwareescrow.com)



but excluding failure caused by the ESCROW AGENT's financial condition or negligence.

8.11 This Agreement controls the parties' respective obligations concerning only the subject matter hereof. To the extent of a conflict between the Online RFP and this Agreement concerning the ESCROW AGENT's duties, this Agreement controls.

8.12 The validity and effect of this Agreement and the rights and obligations of the parties hereto shall be construed and determined in accordance with the laws of the State of Arkansas.

8.13 This Agreement shall be binding upon and shall inure to the benefit of the transferees, successors and assigns of the parties including, but not limited to, any company or corporation with which a party may merge or consolidate. The

ESCROW AGENT is an intended third party beneficiary of this Agreement.

8.14 Numbers and titles to paragraphs hereof are for information purposes only and, where inconsistent with the text, are to be disregarded.

8.15 All notices, affidavits, sworn statements or all other communications required or which may be given pursuant to this Agreement shall be in writing and shall be delivered personally, faxed with a copy sent contemporaneously by mail, or sent by certified, registered, or express mail, postage prepaid, to the appropriate address set forth below, or as later updated by a party in a manner complying with this Section 8.15.



ACKNOWLEDGED AND ACCEPTED

NATIONAL SOFTWARE ESCROW, INC ("ESCROW AGENT")

Address: 8225 Brecksville Road, Building 3, Suite 105, Brecksville, Ohio 44141  
To the Attention of:

By: [Signature]

Title: President

INTRALOT, INC. ("TECHNOLOGY VENDOR")

Address: 11360 Technology Circle, Atlanta, GA 30097  
To the Attention of:

By: [Signature] TOULA ARGIROTIS

Title: VP & CFO

ARKANSAS LOTTERY COMMISSION ("BENEFICIARY")

Address: P.O. BOX 3238, Little Rock, AR 72203  
To the Attention of: Ernie Passalunghi

By: [Signature]

Title: Director



**EXHIBIT "A"**

**Please attach a complete copy of the Online RFP for the system covered under Escrow Agreement Number 7022.**

**National Software Escrow, Inc.  
8225 Brecksville Road, Building Three, Suite 105 • Brecksville, Ohio 44141  
(440) 546-9750 • Fax (440) 546-0207 • [www.nationalsoftwareescrow.com](http://www.nationalsoftwareescrow.com)**



**DEPOSIT MATERIALS IDENTIFICATION AND CERTIFICATION**

**ESCROW FORM 2.1**

The undersigned "TECHNOLOGY VENDOR" hereby identifies the following Deposit Materials contained within the package to which this document is attached and certifies to its completeness and accuracy for Escrow Agreement Number 7022.

**Program**

**AR LOTOS Source Code**

**AR BOS Source Code**

**AR Terminal Source Code for Microlot and Ticket Vending Machine**

**DEPOSIT MATERIAL INFORMATION:**

Is the media or are any of the files encrypted? Yes / No. If yes, please include any passwords and the decryption tools.

Encryption tool name \_\_\_\_\_  
Version \_\_\_\_\_  
Hardware required \_\_\_\_\_  
Software required \_\_\_\_\_  
Other required information \_\_\_\_\_

INTRALOT INC.  
("TECHNOLOGY VENDOR")

By: *Toula Argenti's*  
Title: *VP - CFO*  
Date: *6/28/11*

cc: ARKANSAS LOTTERY COMMISSION  
("BENEFICIARY")

National Software Escrow, Inc.  
8225 Brecksville Road, Building Three, Suite 105 • Brecksville, Ohio 44141  
(440) 546-9750 • fax (440) 546-0207 • www.nationalsoftwareescrow.com



**EXHIBIT B  
PRICE SCHEDULE**

**TECHNOLOGY VENDOR Fees:**

Annual Escrow Fee per Deposit Materials

1st Year	\$1300.00
Renewal Fee	\$1000.00

**Miscellaneous Fees:**

Update Fees per change

(Includes notification to BENEFICIARY)

\$75.00

National Software Escrow, Inc.  
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(440) 546-9730 • Fax (440) 546-0207 • [www.nationalsoftwareescrow.com](http://www.nationalsoftwareescrow.com)

**Arkansas Lottery Commission  
Debt Set-Off / Retailer Losses  
June 2011**

1. Retailer losses for period June 1 through June 30, 2011: There were no retailer losses for the month of June 2011.

2. Debt Set-Off:

a.	Department of Finance and Administration	\$7,106.00
b.	Office of Child Support Enforcement - Child Support	<u>\$1,000.00</u>
	Total Debt Set-Off:	<u>\$8,106.00</u>

**ARKANSAS LOTTERY COMMISSION**  
**RETAIL SALES BY COUNTY**  
 June 1 through June 30, 2011

COUNTY	CASH 3	CASH 4	DECADES OF DOLLARS	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	TOTAL SALES FOR COUNTY
ARKANSAS	\$2,912.50	\$3,478.00	\$7,306.00	\$3,250.00	\$506,225.00	\$14,451.00	\$22,406.00	\$560,028.50
ASHLEY	\$10,696.00	\$9,577.50	\$2,114.00	\$1,393.00	\$108,015.00	\$5,032.00	\$11,459.00	\$148,286.50
BAXTER	\$5,528.50	\$2,652.50	\$5,662.00	\$3,317.00	\$301,619.00	\$17,510.00	\$32,706.00	\$368,995.00
BENTON	\$4,227.00	\$1,944.50	\$17,774.00	\$4,146.00	\$777,348.00	\$52,198.00	\$97,238.00	\$954,875.50
BOONE	\$1,787.00	\$1,757.50	\$3,648.00	\$3,118.00	\$300,732.00	\$11,058.00	\$21,407.00	\$343,507.50
BRADLEY	\$607.50	\$403.50	\$1,274.00	\$772.00	\$90,220.00	\$3,424.00	\$5,956.00	\$102,657.00
CALHOUN	\$389.00	\$245.00	\$502.00	\$287.00	\$48,624.00	\$1,743.00	\$2,846.00	\$54,636.00
CARROLL	\$442.00	\$726.00	\$2,548.00	\$1,721.00	\$228,285.00	\$7,599.00	\$15,261.00	\$256,582.00
CHICOT	\$5,061.00	\$2,390.00	\$4,484.00	\$973.00	\$157,057.00	\$16,453.00	\$32,523.00	\$218,941.00
CLARK	\$4,071.50	\$1,474.50	\$3,648.00	\$3,113.00	\$445,741.00	\$10,508.00	\$18,763.00	\$487,319.00
CLAY	\$420.50	\$79.00	\$934.00	\$225.00	\$84,841.00	\$1,944.00	\$4,043.00	\$92,486.50
CLEBURNE	\$956.00	\$411.50	\$6,088.00	\$3,618.00	\$308,549.00	\$17,331.00	\$29,296.00	\$366,249.50
CLEVELAND	\$584.00	\$343.00	\$1,248.00	\$1,025.00	\$72,807.00	\$2,986.00	\$5,257.00	\$84,250.00
COLUMBIA	\$9,431.00	\$5,356.00	\$2,754.00	\$984.00	\$164,155.00	\$5,954.00	\$12,046.00	\$200,680.00
CONWAY	\$4,947.50	\$1,730.00	\$5,652.00	\$2,745.00	\$400,636.00	\$16,445.00	\$28,072.00	\$460,227.50
CRAIGHEAD	\$6,353.00	\$3,544.50	\$12,866.00	\$6,003.00	\$1,214,905.00	\$34,580.00	\$63,820.00	\$1,342,071.50
CRAWFORD	\$2,380.00	\$1,056.50	\$8,760.00	\$1,913.00	\$414,456.00	\$24,290.00	\$52,643.00	\$505,498.50
CRITTENDEN	\$12,255.00	\$6,258.50	\$4,858.00	\$1,871.00	\$552,355.00	\$25,901.00	\$57,192.00	\$660,690.50
CROSS	\$1,645.50	\$1,785.50	\$2,508.00	\$1,408.00	\$224,001.00	\$6,667.00	\$12,621.00	\$250,636.00
DALLAS	\$1,909.50	\$1,261.50	\$2,730.00	\$4,148.00	\$148,643.00	\$5,770.00	\$9,736.00	\$174,198.00
DESHA	\$1,053.00	\$439.50	\$2,646.00	\$662.00	\$169,382.00	\$7,031.00	\$12,476.00	\$193,689.50
DREW	\$1,054.00	\$625.00	\$3,210.00	\$902.00	\$169,637.00	\$7,348.00	\$13,823.00	\$196,599.00
FAULKNER	\$7,073.00	\$4,986.50	\$20,946.00	\$7,254.00	\$1,191,827.00	\$59,122.00	\$95,224.00	\$1,386,432.50
FRANKLIN	\$973.50	\$489.00	\$2,634.00	\$3,566.00	\$221,689.00	\$7,624.00	\$15,051.00	\$252,026.50
FULTON	\$216.00	\$38.00	\$718.00	\$283.00	\$60,818.00	\$2,440.00	\$4,224.00	\$68,737.00
GARLAND	\$6,199.50	\$3,707.00	\$24,562.00	\$4,339.00	\$866,260.00	\$70,480.00	\$118,405.00	\$1,093,952.50
GRANT	\$516.50	\$296.50	\$4,264.00	\$2,565.00	\$177,038.00	\$8,947.00	\$14,958.00	\$208,585.00
GREENE	\$3,666.00	\$845.50	\$5,296.00	\$1,839.00	\$502,949.00	\$12,504.00	\$24,872.00	\$551,971.50
HEMPSTEAD	\$17,950.00	\$4,908.00	\$2,160.00	\$2,303.00	\$310,732.00	\$8,340.00	\$12,927.00	\$359,320.00
HOT SPRING	\$1,751.50	\$738.50	\$6,600.00	\$3,207.00	\$343,450.00	\$13,795.00	\$23,652.00	\$393,194.00

**ARKANSAS LOTTERY COMMISSION**  
**RETAIL SALES BY COUNTY**  
**June 1 through June 30, 2011**

COUNTY	CASH 3	CASH 4	DECADES OF DOLLARS	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	TOTAL SALES FOR COUNTY
HOWARD	\$11,388.50	\$4,086.00	\$1,812.00	\$654.00	\$150,262.00	\$4,204.00	\$6,101.00	\$178,507.50
INDEPENDENCE	\$3,197.50	\$1,367.00	\$9,662.00	\$4,279.00	\$649,291.00	\$19,039.00	\$33,156.00	\$719,991.50
IZARD	\$292.00	\$193.00	\$942.00	\$216.00	\$84,810.00	\$3,588.00	\$6,674.00	\$96,715.00
JACKSON	\$10,428.00	\$4,347.50	\$6,064.00	\$2,292.00	\$365,772.00	\$10,181.00	\$17,708.00	\$416,792.50
JEFFERSON	\$30,896.50	\$21,561.50	\$21,914.00	\$7,826.00	\$1,468,657.00	\$49,003.00	\$81,050.00	\$1,680,908.00
JOHNSON	\$295.00	\$93.00	\$4,126.00	\$790.00	\$242,478.00	\$9,024.00	\$17,472.00	\$274,278.00
LAFAYETTE	\$2,829.00	\$638.00	\$524.00	\$797.00	\$81,000.00	\$1,288.00	\$2,887.00	\$89,963.00
LAWRENCE	\$1,512.00	\$381.00	\$1,932.00	\$1,208.00	\$272,828.00	\$5,394.00	\$9,817.00	\$293,072.00
LEE	\$2,144.00	\$1,772.00	\$1,386.00	\$601.00	\$117,989.00	\$2,615.00	\$4,685.00	\$131,192.00
LINCOLN	\$464.00	\$185.00	\$952.00	\$732.00	\$110,110.00	\$3,935.00	\$6,517.00	\$122,895.00
LITTLE RIVER	\$2,172.50	\$1,323.50	\$1,196.00	\$2,935.00	\$76,362.00	\$2,735.00	\$3,392.00	\$90,116.00
LOGAN	\$686.00	\$282.00	\$3,824.00	\$2,438.00	\$246,267.00	\$9,229.00	\$18,820.00	\$281,546.00
LONOKE	\$4,843.00	\$2,411.00	\$16,994.00	\$6,122.00	\$1,072,492.00	\$45,041.00	\$73,966.00	\$1,221,869.00
MADISON	\$79.50	\$175.00	\$1,074.00	\$1,091.00	\$82,038.00	\$3,355.00	\$6,492.00	\$94,304.50
MARION	\$1,037.00	\$326.00	\$2,270.00	\$2,595.00	\$154,287.00	\$6,541.00	\$12,346.00	\$179,402.00
MILLER	\$19,247.50	\$5,131.00	\$4,140.00	\$2,451.00	\$344,384.00	\$12,367.00	\$15,923.00	\$403,643.50
MISSISSIPPI	\$27,899.50	\$10,891.00	\$4,552.00	\$4,431.00	\$485,747.00	\$11,246.00	\$23,469.00	\$568,235.50
MONROE	\$2,693.00	\$1,220.00	\$2,428.00	\$1,539.00	\$122,195.00	\$6,877.00	\$11,534.00	\$148,486.00
MONTGOMERY	\$133.50	\$20.50	\$444.00	\$534.00	\$20,981.00	\$2,667.00	\$4,055.00	\$28,835.00
NEVADA	\$1,602.00	\$532.50	\$2,264.00	\$806.00	\$225,672.00	\$5,196.00	\$6,529.00	\$242,601.50
NEWTON	\$152.50	\$113.50	\$352.00	\$178.00	\$71,219.00	\$1,394.00	\$3,048.00	\$76,457.00
OUACHITA	\$8,327.50	\$4,581.00	\$6,472.00	\$5,331.00	\$430,133.00	\$12,064.00	\$21,255.00	\$488,163.50
PERRY	\$805.00	\$751.00	\$1,352.00	\$602.00	\$93,910.00	\$5,861.00	\$9,197.00	\$112,478.00
PHILLIPS	\$3,389.50	\$4,938.00	\$2,340.00	\$1,016.00	\$254,039.00	\$8,650.00	\$18,277.00	\$292,649.50
PIKE	\$116.50	\$88.00	\$1,566.00	\$311.00	\$89,400.00	\$5,220.00	\$8,277.00	\$104,978.50
POINSETT	\$5,795.00	\$1,859.00	\$3,942.00	\$2,282.00	\$495,683.00	\$8,596.00	\$18,223.00	\$536,380.00
POLK	\$406.50	\$151.50	\$2,792.00	\$773.00	\$167,729.00	\$8,048.00	\$14,582.00	\$194,482.00
POPE	\$5,058.50	\$2,161.50	\$13,548.00	\$3,092.00	\$781,702.00	\$32,776.00	\$57,208.00	\$895,546.00
PRAIRIE	\$4,138.50	\$1,154.50	\$1,606.00	\$1,174.00	\$116,791.00	\$4,605.00	\$7,816.00	\$137,285.00
PULASKI	\$88,691.50	\$51,467.00	\$121,558.00	\$47,496.00	\$6,615,167.00	\$305,899.00	\$476,356.00	\$7,706,634.50
RANDOLPH	\$91.50	\$97.50	\$2,216.00	\$208.00	\$129,749.00	\$3,511.00	\$6,951.00	\$142,824.00

**ARKANSAS LOTTERY COMMISSION  
RETAIL SALES BY COUNTY  
June 1 through June 30, 2011**

COUNTY	CASH 3	CASH 4	DECADES OF DOLLARS	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	TOTAL SALES FOR COUNTY
SAINT FRANCIS	\$6,483.50	\$3,331.00	\$3,202.00	\$1,326.00	\$263,489.00	\$9,748.00	\$17,098.00	\$304,677.50
SALINE	\$7,380.50	\$2,309.50	\$22,978.00	\$8,449.00	\$1,343,699.00	\$64,963.00	\$106,469.00	\$1,556,248.00
SCOTT	\$180.00	\$29.00	\$1,084.00	\$982.00	\$159,601.00	\$3,356.00	\$7,373.00	\$172,605.00
SEARCY	\$1,224.50	\$685.00	\$1,614.00	\$3,755.00	\$106,739.00	\$3,087.00	\$5,203.00	\$122,307.50
SEBASTIAN	\$11,011.50	\$2,731.00	\$20,696.00	\$5,382.00	\$789,708.00	\$52,109.00	\$117,598.00	\$999,235.50
SEVIER	\$2,199.50	\$392.00	\$1,434.00	\$592.00	\$120,889.00	\$3,213.00	\$6,050.00	\$134,769.50
SHARP	\$758.50	\$327.50	\$2,236.00	\$1,374.00	\$157,562.00	\$5,556.00	\$9,969.00	\$177,783.00
STONE	\$1,446.50	\$264.00	\$1,450.00	\$1,100.00	\$93,236.00	\$4,457.00	\$8,535.00	\$110,488.50
UNION	\$32,709.50	\$15,288.50	\$6,760.00	\$4,678.00	\$612,414.00	\$17,657.00	\$32,008.00	\$721,515.00
VAN BUREN	\$906.50	\$591.00	\$2,348.00	\$534.00	\$163,905.00	\$8,721.00	\$14,902.00	\$191,907.50
WASHINGTON	\$7,571.00	\$4,584.00	\$25,618.00	\$6,763.00	\$1,275,735.00	\$72,953.00	\$135,090.00	\$1,528,314.00
WHITE	\$2,789.00	\$1,506.00	\$13,146.00	\$6,955.00	\$1,108,354.00	\$33,237.00	\$57,943.00	\$1,223,930.00
WOODRUFF	\$2,150.50	\$365.50	\$1,586.00	\$496.00	\$157,605.00	\$4,111.00	\$7,087.00	\$173,401.00
YELL	\$1,070.50	\$166.00	\$2,508.00	\$2,927.00	\$201,713.00	\$8,019.00	\$13,341.00	\$229,744.50

<b>GRAND TOTALS</b>	<b>*Cash 3</b>	<b>*Cash 4</b>	<b>Decades of Dollars</b>	<b>*Fast Play</b>	<b>*Instant</b>	<b>*Mega Millions</b>	<b>*Powerball</b>	<b>*Totals</b>
	<b>\$435,751.00</b>	<b>\$220,417.50</b>	<b>\$523,298.00</b>	<b>\$225,063.00</b>	<b>\$32,736,789.00</b>	<b>\$1,380,811.00</b>	<b>\$2,413,352.00</b>	<b>\$37,935,481.50</b>

\*Estimates

**Arkansas Lottery Commission  
Total Number of Active Retailers  
June 2011**

As of June 30, 2011, there were 1,945 active retailers.

**Arkansas Lottery Commission**  
**Statement of Net Assets**  
**June 30, 2011**

**ASSETS**

**Current assets:**

Cash and Cash Equivalents	\$ 8,933,849.96
Restricted Assets:	
Cash and cash equivalents	59,380,613.14
Accounts receivable	11,230,161.32
Prepaid items	<u>77,256.47</u>
 Total current assets	 <u>79,621,880.89</u>

**Noncurrent assets:**

Restricted assets:	
Cash and cash equivalents	20,051,246.38
Deposits with Multi-State Lottery Asso.	1,138,132.70
Capital assets:	
Equipment	526,664.88
Leasehold Improvements	498,416.68
Less accumulated depreciation	<u>(302,392.71)</u>
 Total noncurrent assets	 <u>21,912,067.93</u>
 Total assets	 <u>\$ 101,533,948.82</u>

**LIABILITIES**

**Current liabilities:**

Accounts payable	\$ 1,396,740.69
Prizes payable	15,981,897.49
Accrued and other liabilities	1,159,967.44
Due to other funds	1,196,428.05
Due to ADHE	62,046,460.15
Compensated absences	292,019.85
Deferred revenue	<u>355,236.50</u>
 Total current liabilities	 <u>82,428,750.17</u>

**Noncurrent liabilities:**

Net postemployment benefits payable	<u>230,021.67</u>
 Total liabilities	 <u>82,658,771.84</u>

**NET ASSETS**

**Net assets:**

Invested in capital assets	722,688.85
Restricted for:	
Scholarship shortfall fund	20,000,000.00
Retailer fidelity fund	42,205.28
Deposits with MUSL	1,138,132.70
Future prizes or special prize promotions	1,000,000.00
Unrestricted	<u>(4,027,849.85)</u>
 Total net assets	 <u>18,875,176.98</u>
 Total liabilities & net assets	 <u>\$ 101,533,948.82</u>

**Arkansas Lottery Commission**  
**Statement of Revenue, Expenses, and Changes in Net Assets**  
**For the Twelve Months Ending June 30, 2011**

	Current month	Year to date
<b>Operating revenues:</b>		
Instant ticket sales	\$ 34,247,481.42	\$ 390,114,991.23
Online ticket sales	5,076,272.50	73,904,359.58
Retailer application, fidelity and service fees	77,050.00	1,055,537.94
Other revenue	2,100.83	5,450.01
	<u>39,402,904.75</u>	<u>465,080,338.76</u>
<b>Total operating revenues</b>		
 <b>Operating expenses:</b>		
Instant game prizes	23,793,780.39	271,709,950.04
Online game prizes	2,351,207.35	35,744,755.17
Retailer commissions	2,225,579.75	26,217,850.84
Gaming contract costs	2,015,299.31	24,111,720.45
Compensation and benefits	561,919.05	5,997,576.35
Marketing, advertising and promotions	671,524.45	4,631,388.06
General and administrative expenses	109,766.83	1,328,978.52
Services provided by ADHE	971,344.00	1,171,344.00
Services provided by Legislative Audit Agency	8,100.00	99,480.00
Legal and professional services	(156,695.99)	187,490.14
Depreciation	15,179.88	179,750.21
	<u>32,567,005.02</u>	<u>371,380,283.78</u>
<b>Total operating expenses</b>		
<b>Operating income</b>	6,835,899.73	93,700,054.98
 <b>Nonoperating revenue (expense):</b>		
Interest income	38,453.81	464,252.54
<b>Income before transfers</b>	6,874,353.54	94,164,307.52
 Transfers to:		
Transfers to ADHE	(3,690,562.00)	(94,246,651.54)
Transfers to ADHS	(200,000.00)	(200,000.00)
 Transfers from:		
Transfers from ADHE		<u>20,000,000.00</u>
<b>Change in net assets</b>	<u>\$ 2,983,791.54</u>	19,717,655.98
 Total net assets -beginning		(842,479.00)
<b>Total net assets - ending</b>		<u>\$ 18,875,176.98</u>

**Arkansas Scholarship Commission**  
**Net Proceeds Transfer to Ed Trust Computation**  
**For the Twelve Months Ending June 30, 2011**

Year to date

**Operating revenues:**

Instant ticket SETTLEMENTS	\$ 390,755,589.00
Online ticket sales	73,904,359.58
Retailer application, fidelity and service fees	1,055,537.94
Other revenue	<u>5,450.01</u>

Total operating revenues 465,720,936.53

**Operating expenses:**

Instant game prizes SETTLEMENTS	270,125,618.88
Online game prizes	35,744,755.17
Retailer commissions	26,217,850.84
Gaming contract costs	24,111,720.45
Compensation and benefits	5,997,576.35
Marketing, advertising and promotions	4,631,388.06
General and administrative expenses	1,328,978.52
Services provided by ADHE	1,171,344.00
Services provided by Legislative Audit Agency	99,480.00
Legal and professional services	187,490.14
Current year Capital Asset cost	<u>34,831.87</u>
Total operating expenses	369,651,034.28

Change in net proceeds from operations 96,069,902.25

**Nonoperating revenue (expense):**

Interest Income	464,252.54
EDUCATION TRUST FUNDING-Current Year	(90,556,089.54)
Less Act 1180 Unclaimed Prizes	(1,000,000.00)
Less Transfer to ADHS	(200,000.00)
Less Current year Fidelity Fund fees	(23,373.97) restricted fund
Less Current year MUSL Reserves additions	(680,864.73) see 23-115-103(17) and (19)(A)&(B)
Less fiscal year 2010 subsequent transactions	<u>(383,264.55) prior year expense items not previously charged to Net Proceed</u>

**NET PROCEEDS EARNED-Current Month**

**\$ 3,690,562.00**

Totals	Transfer	Interest	Total
	\$ 61,599,392.38	\$ 447,067.77	\$ 62,046,460.15
October 2009 funding -11/15/09	\$ 8,120,211.99		\$ 8,120,211.99
November 2009 funding - 12/15/09	\$ 9,038,495.35	\$ 1,835.39	\$ 9,040,330.74
December 2009 funding - 1/14/10	\$ 10,829,280.27	\$ 6,109.34	\$ 10,835,389.61
January 2010 funding - 2/15/10	\$ 9,125,874.01	\$ 10,956.20	\$ 9,136,830.21
February 2010 funding - 3/12/10	\$ 10,467,824.60	\$ 13,741.79	\$ 10,481,566.39
March 2010 funding - 4/14/10	\$ 11,014,624.69	\$ 20,506.68	\$ 11,035,131.37
April 2010 funding - 5/13/10	\$ 8,937,980.78	\$ 24,355.11	\$ 8,962,335.89
May 2010 funding 6/14/10	\$ 9,065,920.17	\$ 29,966.86	\$ 9,095,887.03
June 2010 funding -7/14/10	\$ 6,059,225.23	\$ 32,900.15	\$ 6,092,125.38
July 2010 funding - 8/13/10	\$ 8,503,421.96	\$ 37,490.77	\$ 8,540,912.73
August 2010 funding - 9/14/10	\$ 7,925,706.45	\$ 41,129.77	\$ 7,966,836.22
September 2010 funding - 10/14/10	\$ 7,361,418.43	\$ 43,339.89	\$ 7,404,758.32
October transfer to ADHE 10/1/10	\$ (65,000,000.00)		\$ (65,000,000.00)
October 2010 funding - 11/12/10	\$ 7,197,503.10	\$ 18,042.76	\$ 7,215,545.86
November 2010 funding - 12/15/10	\$ 8,235,343.71	\$ 20,925.06	\$ 8,256,268.77
December 2010 funding - 1/14/11	\$ 6,671,666.03	\$ 25,098.81	\$ 6,696,764.84
January 2011 funding - 2/11/11	\$ 9,005,241.74	\$ 28,533.34	\$ 9,033,775.08
February transfer to ADHE 2/11/11	\$ (50,000,000.00)		\$ (50,000,000.00)
February 2011 funding - 3/14/11	\$ 8,213,896.20	\$ 15,845.40	\$ 8,229,741.60
March 2011 funding - 4/13/11	\$ 10,279,304.63	\$ 12,939.26	\$ 10,292,243.89
April 2011 funding - 5/13/11	\$ 8,380,584.65	\$ 16,872.92	\$ 8,397,457.57
May 2011 funding - 6/14/11	\$ 8,500,021.38	\$ 21,763.28	\$ 8,521,784.66
June 2011 funding - 7/15/11	\$ 3,665,847.01	\$ 24,714.99	\$ 3,690,562.00

**Arkansas Lottery Commission**

**Unclaimed Prizes**

**June 2011**

1. Unclaimed lottery prize money: \$4,829,763
2. Expenditures from unclaimed lottery prize money: 0
3. Reserved for future prizes or promotions: \$1,000,000
4. Deposits to net lottery proceeds from unclaimed lottery prize money: \$3,829,763

**ARKANSAS LOTTERY COMMISSION MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**  
**June 1 through June 30, 2011**

<b>Vendors</b>	<b>Goods or Services</b>	<b>Diversity Classification</b>	<b>Fiscal 2011</b>	<b>June 2011</b>
African American Perspectives	Advertising/Public Relations	Minority-owned	\$3,750.00	
Best Banner and Sign	Promotional Items	Female-owned	\$27.31	
Dr. B's Windshield Repair Company	Vehicle Maintenance	Minority-owned	\$69.88	
Goddess Products	Office Furniture/Supplies	Minority-owned	\$84,027.02	\$464.49
Hog Wash Detail Dent & Tint	Auto Detail & Cosmetic Repair	Minority-Owned	\$268.73	
HOLA! Arkansas	Advertising/Public Relations	Minority-owned	\$1,000.00	
Inclusion Magazine	Advertising/Public Relations	Minority-owned	\$3,750.00	
LAF Productions, Inc.	Advertising/Public Relations	Minority-owned	\$4,622.00	
Mr. B's 2 Mobile Hand Wash & Wax	Car Detail and Inspection	Minority-owned	\$704.58	
RB Professional Cleaning Service	Janitorial Services	Female-owned	\$5,499.31	\$569.63
RU-MEL & Associates, Inc.	Advertising/Public Relations	Minority-owned	\$950.00	
SHI International Corp.	Computer Software	Female-owned	\$8,867.98	
STAND News	Advertising/Public Relations	Minority-owned	\$3,600.00	
The American Banner Publishing, LLC	Advertising/Public Relations	Minority-owned	\$2,466.00	\$1,233.00
Trivia Marketing	Advertising/Public Relations	Female-owned	\$1,901.18	\$704.14
<b>Totals</b>			<b>\$121,503.99</b>	<b>\$2,971.26</b>

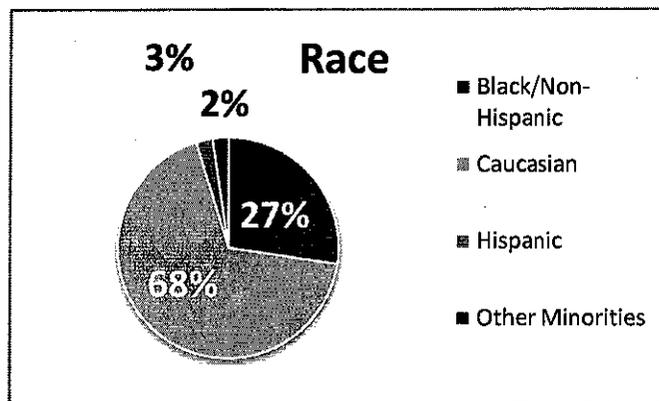
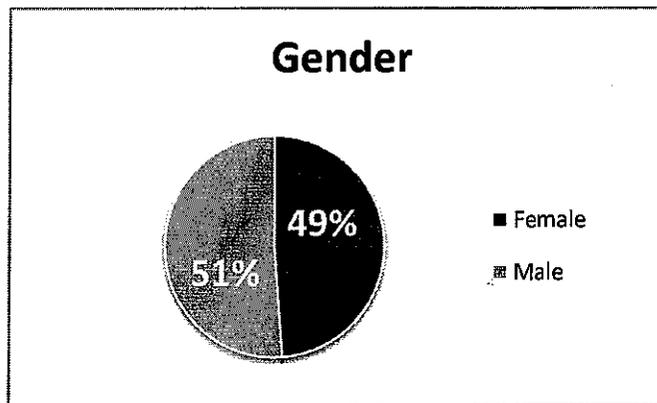
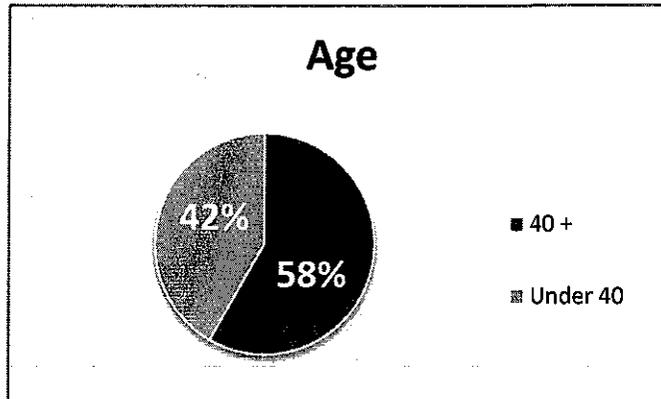
**INTRALOT MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**  
**June 1 through June 30, 2011**

<b>Vendors</b>	<b>Goods or Services</b>	<b>Diversity Classification</b>	<b>Fiscal 2011</b>	<b>June 2011</b>
Finders Keepers	Technical Support	Female-owned	\$58,822.40	
Goddess Products	Office Furniture/Supplies	Minority-owned	\$500.24	
J. Kelly Referrals & Information Services, Inc.	Call Center/Information Services	Minority-owned	\$206,985.53	\$22,946.26
<b>Totals</b>			<b>\$266,308.17</b>	<b>\$22,946.26</b>

**SCIENTIFIC GAMES MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**  
**June 1 through June 30, 2011**

<b>Vendors</b>	<b>Goods or Services</b>	<b>Diversity Classification</b>	<b>Fiscal 2011</b>	<b>June 2011</b>
Choice Promotions	Promotional Items	Minority-owned	\$61,782.91	\$8,773.71
Endless Power	Power Supply Services	Minority-owned	\$5,150.00	\$5,150.00
Expedited Transportation Service	Transportation Services	Female-owned	\$25,410.95	\$1,165.00
Indoff, Incorporated	Office Supplies	Minority-owned	\$2,504.49	
Laura's Draperies and Blinds	Blinds for Office	Female-Owned	\$90.25	
Mr. Klean Carpet and Janitorial Services	Janitorial Services	Minority-owned	\$3,757.90	\$596.60
Premier Staffing	Staffing Services	Female-owned	\$16,647.21	\$1,806.75
State Imaging Supply	Office Supplies	Female-owned	\$650.90	
<b>Totals</b>			<b>\$115,994.61</b>	<b>\$17,492.06</b>

**Arkansas Lottery Commission  
Demographics – June 2011**



**Total Number of Employees as of June 30, 2011: 84**

**Gender:**

Females – 41  
Males – 43

**Race:**

**Black/Non-Hispanic – 23**  
Female – 15  
Male - 8

**Hispanic – 2**  
Female - 2  
Male - 0

**Age:**

Under 40 – 35  
40 + – 49

**Caucasian – 57**  
Female - 24  
Male - 33

**Other – 2**  
Female - 0  
Male - 2

**Arkansas Lottery Commission**  
**Instant Games**  
**June 2011**

Sales for the following instant games began June 7, 2011. No ending dates have been determined for these games.

\$1 Big Bang Bucks  
\$2 Citrus Twist  
\$3 Bonus Crossword  
\$5 \$100,000 Riches

Sales for the following Fast Play game began June 13, 2011. The ending date has not been determined for this game.

\$1 Tic Tac Toe Fast Play

Sales for the following instant game began June 16, 2011. No ending dates have been determined for this game.

\$10 Super Jumbo Bucks

Sales for the following instant games began June 28, 2011. No ending dates have been determined for these games.

\$1 Ace in the Hole  
\$1 Tic Tac Toad  
\$2 Fire 'n' Dice

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Audit Report Finding 2010-1:**

Ark. Code Ann. § 23-115-206 (a) (6) requires the Agency to "prepare the financial statements, including the related notes to the financial statements, of the commission in accordance with generally accepted accounting principles (GAAP) and in accordance with guidelines and timelines established by the Chief Fiscal Officer of the State to permit incorporation into the state's financial statements and to permit the audit of the state's financial statements and the commission's financial statements in a timely manner;". The Agency did not prepare the June 30, 2010 financial statements and related notes in accordance with GAAP. The failure to prepare the financial statements and related notes in accordance with GAAP resulted in errors and omissions that could adversely affect the inclusion of the Arkansas Lottery Commission Financial Statements and related notes in the State's Comprehensive Annual Financial Report.

#### **Recommendation for Finding 2010-1:**

We recommend the Agency strengthen internal control over financial reporting by ensuring appropriate employees are qualified and knowledgeable of all applicable Governmental Accounting Standards and prepare the financial statements and related notes in accordance with GAAP.

#### **Audit Objective #1**

Review the Arkansas Lottery Commission's June 30, 2011 financial statements and related notes prior to submission to the Division of Legislative Audit.

#### **Status as of July 8, 2011**

##### Audit fieldwork planned

- The finding relates to the Lottery's annual financial statements and related notes.
- Therefore, this finding cannot be addressed until the June 30, 2011 financial statements and notes are prepared.
- Internal Audit anticipates performing fieldwork associated with this objective in July 2011 and August 2011.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Audit Report Finding 2010-2:**

Ark. Code Ann. § 23-115-205 (a) (20) states that the Commission may enter into contracts with the terms and conditions as necessary. In addition, Ark. Code Ann. § 23-115-701 (e) (1) states that each major procurement contract shall be filed with the Arkansas Lottery Commission Legislative Oversight Committee (LOC) for review before the execution date of the contract. The Commission approved and LOC reviewed the instant ticket lottery game service contract with a stated cost of 1.75% of net sales. Subsequent to this review, Management entered into a *Recital of Selected Options* with a cost of 1.92% of net sales plus an additional cost of 1.5% of the prize pool. The estimated cost of the *Recital of Selected Options* compared to the original reviewed price proposal is an additional \$3.9 million per year. In addition to the *Recital of Selected Options*, Management entered into three licensing agreements with the vendor with a total estimated cost of \$671,861. The subsequent *Recital of Selected Options* and three licensing agreements were not approved by the Commission or reviewed by LOC. Lack of appropriate review of contracts and modifications of contracts could lead to a lack of transparency to the LOC and public.

#### **Recommendation for Finding 2010-2:**

We recommend the Agency ensure compliance with State law by submitting appropriate documents for review by the Arkansas Lottery Commission Legislative Oversight Committee.

**NOTE – This finding was cleared by Internal Audit on March 8, 2011.**

#### **Audit Objective #2**

Determine that the Arkansas Lottery Commission Legislative Oversight Committee and Arkansas Lottery Commission have reached an agreement concerning the submission of appropriate contract documents for review by the Arkansas Lottery Commission Legislative Oversight Committee.

**No Findings or Recommendations.** Lottery management has agreed to provide immediate notice to the Arkansas Lottery Commission Legislative Oversight Committee of all agreements described in a letter from the Co-chairs of the Committee dated December 14, 2010.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Audit Objective #3**

Determine that Lottery management is submitting appropriate contractual documents for review by the Arkansas Lottery Commission Legislative Oversight Committee.

**No Findings or Recommendations.** Lottery management has submitted to the Arkansas Lottery Commission Legislative Oversight Committee all licensed instant ticket game agreements (2) entered into from July 1, 2010 through February 28, 2011. The Arkansas Lottery Commission's legal counsel has indicated that the Lottery is in compliance with the contents of the letter from the Co-chairs of the Committee dated December 14, 2010.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Management Letter Finding #1:**

Ark. Code Ann. § 23-115-403 (f) (1) prohibits the payment of lottery prizes to certain individuals who are members of the Commission, employees of the Commission, or member of the immediate family of a Commissioner or employee of the Commission. Currently, the Agency conducts prize payment reviews for Powerball and Mega Millions prize payments of \$10,000 or more and second chance drawings for instant games. The Agency does not review prize payments for instant ticket games nor prize payments below \$10,000 for on-line games. In a review of the database used to perform the prize payment review, it was noted that current information within the database required to comply with State law is incomplete. Management utilizes social security numbers to aid in compliance with State law, but 75% of the employees and relatives did not have a social security number listed including the Executive Director, Vice President of Gaming, and 12 other employees. An additional requirement for the database was the address of the prohibited player. In the review of the database, 15% of the employees and relatives had incomplete information including six employees. In addition, four employees were not included in the database. Failure to comply with State law could allow inappropriate lottery prize payments and loss of integrity for the Arkansas Lottery Commission.

#### **Recommendation for Management Letter Finding #1:**

We recommend the Agency obtain information from commission members, employees and others deemed necessary to complete the comprehensive database and conduct the prize payment reviews required by State law.

**NOTE – This finding was cleared by Internal Audit on June 6, 2011.**

#### **Audit Objective #4**

Determine that Lottery management has established procedures in which a winner claiming a prize in excess of \$500 affirms, by signature, that they are not an ineligible player as defined by State law.

**No Findings or Recommendations.** The Arkansas Scholarship Lottery Winner Claim Form has been updated to state the following:

*I further attest that I am not an ASL Commissioner or an ASL employee, nor am I a member of the immediate family of an ASL Commissioner or ASL employee.*

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

#### Status Report – July 8, 2011

##### Audit Objective #5

Determine that Lottery management has established, to the extent possible, a database of ineligible players to ensure prize payments in excess of \$500 are not paid to an individual deemed ineligible to win a Lottery prize as defined by State law.

##### **No Findings or Recommendations.**

- Act 207 of 2011 changed the requirements regarding prohibited players to the following:

*The commission shall not pay a lottery prize that exceeds the amount of five hundred dollars (\$500) to any: (A) Member of the commission; (B) Employee of the commission; or (C) Member of the immediate family of a member of the commission or an employee of the commission living in the same household as the member of the commission or the employee.*

- Lottery management has developed a database of all ineligible players based on the criteria included in Act 207 of 2011.
- Internal Audit tested the ineligible player database for completeness as of May 5, 2011. No exceptions were noted.
- A module in the gaming system to automate the procedure of verifying the eligibility of a player in the validation process of high-tier prize payments was implemented on April 25, 2011.
- Internal Audit tested the Lottery's gaming system's ineligible player verification module to ensure that any player included in the ineligible player database that attempts to redeem a lottery prize in excess of \$500 is flagged by the system and payment of the prize is disallowed. No exceptions were noted.
- Lottery management has developed policies and procedures to establish rules and guidelines for maintaining an accurate and up-to-date database of ineligible players as outlined in Act 207 of 2011.

**Arkansas Lottery Commission – Internal Audit**

**Review of Findings and Recommendations from the Division of Legislative Audit's  
June 30, 2010 Audit Report and Management Letter**

**Status Report – July 8, 2011**

**Legislative Audit Management Letter Finding #2:**

Ark. Code Ann. § 23-115-303 (e) and (f) requires each person considered for employment by the Commission submit to a state and federal background check. Arkansas Code further states that the Commission cannot employ anyone who has been convicted or entered a plea agreement for certain criminal offenses. Nineteen individuals employed by the Commission were selected for review; of which, all background checks were completed subsequent to the first day of employment. The failure to complete the background checks prior to employment resulted in the employment and subsequent termination of two individuals with previous criminal offenses.

**Legislative Audit Recommendation for Management Letter Finding #2:**

We recommend the Agency develop policies and procedures to ensure criminal background checks are received prior to employment.

**NOTE – This finding was cleared by Internal Audit on January 7, 2011.**

**Audit Objective #6**

Determine that Lottery management has established written policies and procedures concerning employee background checks.

**No Findings or Recommendations.** Written policies and procedures have been developed for employee background checks.

**Audit Objective #7**

Determine that background checks are received and reviewed prior to the first day of employment.

**No Findings or Recommendations.** Audit fieldwork revealed that for all employees hired between the dates of April 19, 2010 through January 7, 2011, a background check was received and reviewed prior to the first day of employment.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Legislative Audit Management Letter Finding #3:**

Ark. Code Ann. § 23-115-206 (a) (1) requires the Commission to establish effective internal controls. To effectively establish internal controls, management should communicate policy and procedures to all staff. Management did not communicate the policy and procedures for the accrual and use of compensatory time to exempt staff until August 3, 2010 for time purportedly earned between July 1 and November 30, 2009. Subsequent to the issuance of the formal policy, numerous changes were made by management including a suspension of compensatory time usage. In addition, management was unable to properly account for the potential compensatory time resulting in ten different versions of compensatory time being submitted for audit. Due to the numerous changes made to the compensatory time policy, at the end of audit fieldwork, it remains unclear what the Agency had established as policy. The failure to establish and communicate policy has led to confusion with the 23 affected employees and has created a potential liability for some staff, who may be required to reimburse the Agency for compensatory time already taken.

#### **Legislative Audit Recommendation for Management Letter Finding #3:**

We recommend the Agency strengthen internal controls by communicating applicable policies and procedures to staff in a timely manner. We further recommend the Agency obtain guidance from the Chief Fiscal Officer of the State regarding reimbursement of any overpayments that may be determined.

#### **Audit Objective #8**

Determine if any additional compensatory time has been granted to exempt employees since the audit report date of June 30, 2010.

#### **Status as of July 8, 2011**

Audit fieldwork complete – No findings or recommendations

Internal Audit reviewed leave records and inquired of applicable employees and determined that no additional compensatory time has been awarded to exempt employees.

**Arkansas Lottery Commission – Internal Audit**

**Review of Findings and Recommendations from the Division of Legislative Audit's  
June 30, 2010 Audit Report and Management Letter**

**Status Report – July 8, 2011**

**Audit Objective #9**

Determine if Lottery management has established written policies and procedures for the use of the 80 hours of compensatory time approved by the Arkansas Lottery Commission.

**Status as of July 8, 2011**

Audit fieldwork complete – No findings or recommendations

Lottery management has established a *Compensatory Time Policy*. In addition, an email written by the Lottery's Human Resources Director provided guidance to effected employees regarding usage of the compensatory time awarded.

**Audit Objective #10**

Determine that compensatory time usage is accounted for in accordance with policies and procedures, approved, and adequately supported.

**Status as of July 8, 2011**

Audit fieldwork complete – No findings or recommendations

Internal Audit performed a test of compensatory time usage records and determined that time is accounted for in accordance with policies and procedures, approved, and adequately supported.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### Audit Objective #11

Determine that the Executive Director and Vice Presidents are repaying compensatory time in accordance with the methodology submitted and reviewed by the Arkansas Lottery Commission.

#### Status as of July 8, 2011

##### Audit fieldwork in progress

##### Executive Director

The Executive Director has repaid all 16 hours compensatory time used by reducing his annual leave balance.

##### Vice President of Gaming

The Vice President of Gaming has repaid all 134.5 hours compensatory time used by reducing his annual leave balance (52.5 hours) and compensation (82 hours).

##### Vice President of Administration

- The original balance of the compensatory time to be reimbursed by the Vice President of Administration was 178.5 hours. The Vice President of Administration submitted a plan on February 11, 2011 to reimburse her outstanding compensatory time balance in the following manner:
  1. Starting with the pay period ending February 19, 2011, reduce compensation by 4 hours per week (8 hours per pay period) until the pay period ending July 9, 2011, a total of 11 pay periods. This will result in a reduction of the compensatory time balance of 88 hours.
  2. Forfeit her cost-of-living adjustment (COLA) and merit pay increase in the amount of \$8,922.24. At an hourly rate of \$108.49 per hour, this will result in a reduction of the compensatory time balance of approximately 82 hours.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

#### Status Report – July 8, 2011

3. The remainder of the compensatory time will be paid by the Vice President of Administration to bring the balance to zero by the end of July 2011.
- The Vice President of Administration has a balance of approximately 15.5 hours as of July 8, 2011. The original balance of the compensatory time to be reimbursed of 178.5 hours has been reduced by the following:
    - A reduction in compensation of eight hours per check for ten (10) pay periods (80 hours)
    - A payroll deduction overpayment of \$57.69 (.53 hours) not returned to the Vice President of Administration
    - Forfeiture of her fiscal year 2011 cost-of-living adjustment (COLA) lump sum payment of \$3,845.00 and merit pay increase of \$5,077.24 (82.48 hours)

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Legislative Audit Management Letter Finding #4:**

Act 605 and 606 of 2009, as amended, known as the Arkansas Scholarship Lottery Act, set the executive director's salary at \$141,603 with multipliers of up to 2.5 times resulting in a maximum salary of \$354,007. Ark. Code Ann. § 23-115-304 (b) states, "A commission employee's salary for retirement purposes shall be the amount determined by the commission as authorized by the General Assembly and shall not include any multipliers used to increase a person's salary as authorized by the General Assembly." The Commission paid retirement contributions based on the Executive Director's salary including multipliers. Ark. Code Ann. § 23-115-304 (b) may be in conflict with general legislation applicable to the Arkansas Public Employees Retirement System (APERS) as related to the definition of compensation for retirement purposes, Ark. Code Ann. § 24-4-101, and calculations of benefits, Ark. Code Ann. § 24-4-601. Based on the advice of APERS, the Commission remitted an additional \$29,184 for retirement contributions based on the total amount of the Executive Director's salary of \$324,000.

#### **Legislative Audit Recommendation for Management Letter Finding #4:**

We recommend the Agency seek legal guidance as to the applicability of Ark. Code Ann. §§ 23-115-304(b), 24-4-101, and 24-4-601. In addition, the Agency should seek reimbursement for any overpayments that may be determined.

**NOTE – This finding was cleared by Internal Audit on April 8, 2011.**

#### **Audit Objective #12**

Determine that an Attorney General's opinion has been requested concerning the Arkansas Lottery Commission's Executive Director's retirement contributions (Ark. Code Ann. §§ 23-115-304(b), 24-4-101, and 24-4-601).

**No Findings or Recommendations.** The Legislative Joint Audit Committee requested an Attorney General's opinion regarding the Arkansas Lottery Commission's Executive Director's retirement contributions. Attorney General Opinion Number 2010-150 was issued on February 7, 2011. The opinion states that the specific language in the Arkansas Lottery Act holds precedent over the general statutes contained in Ark. Code Ann. 524-4-101 and 24-4-601. Therefore, contributions for retirement should be based on the Executive Director's salary without multipliers.

**Arkansas Lottery Commission – Internal Audit**

**Review of Findings and Recommendations from the Division of Legislative Audit's  
June 30, 2010 Audit Report and Management Letter**

**Status Report – July 8, 2011**

**Audit Objective #13**

Determine that the Arkansas Lottery Commission has been reimbursed from the Arkansas Public Employees Retirement System (APERS) any excess retirement contributions.

**No Findings or Recommendations.** The Arkansas Lottery Commission received a warrant in the amount of \$34,204.30 from the Arkansas Public Employees Retirement System on March 25, 2011. This payment represented the return of excess retirement contributions paid by the Lottery (employer matching) in regards to the Executive Director's salary.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### Legislative Audit Management Letter Finding #5:

Review of travel reimbursements, Visa statements, and supporting documentation revealed the following:

- The Executive Director submitted ten requests for travel reimbursement totaling \$4,534 during the fiscal year; five of which, totaling \$3,470, lacked proper approval by a designated travel supervisor.
- Travel payments/reimbursements totaling \$16,189 were made that are in conflict with State laws and travel regulations.
  1. Hotel expenses were paid above the Federal per diem rate without prior authorization by the Agency's Executive Director. We noted 22 instances totaling \$9,616 that are in violation of R1-19-4-903 of the Financial Management Guide, which states "lodging costs exceeding the rates listed in the Federal Travel Directory may not be paid without a letter of authorization by the administrative head of the agency and must include a justification as to why it was in the best interest of the State to exceed the standard reimbursement rate".
  2. Five (5) charges totaling \$1,872 made to the Visa travel credit card were either not supported by adequate documentation, the documentation did not match the amount charged, or the documentation did not appear to be an original. This appears to be in violation of Ark. Code Ann. § 19-4-902(b) which states "the responsibility of the administrative head of any agency to keep on file in the place of business of the agency, subject to audit, copies of all supporting documents and required receipts for expenses incurred in connection with the travel authorizations and allowances for persons traveling on behalf of the agency".
  3. Documentation used to support Visa statements/TR-1 reimbursements for airline ticket purchases were screen prints from an airline/travel booking website that were printed prior to an actual flight confirmation. We noted seven (7) instances totaling \$2,814 that are in violation of Ark. Code Ann. § 19-4-902(b).
  4. The business purpose was not adequately documented for payments made on behalf of, or reimbursements to, the Vice-President of Gaming for travel expenses totaling \$1,423. Exceeding the conference room rate by \$103 per night, additional hotel charges totaling \$309 were incurred during a conference in New York. In addition, hotel costs and meals totaling \$1,114 were incurred beyond the dates of the conference.
  5. We also noted \$464 in other reimbursements that are in conflict with various State laws and travel regulations including: receipts not matching the dates listed on the travel reimbursement form, excess mileage reimbursement, exceeding the Federal per diem daily rate for meals incurred during overnight travel, reimbursement for meals without having overnight travel, and reimbursement for tips above the 15% allowance.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Legislative Audit Recommendation for Management Letter Finding #5:**

We recommend the Agency strengthen internal controls related to travel expenditures by requiring all travel expenditures be adequately documented. Agency personnel that travel as part of their job duties should be trained on the various State travel regulations and management should establish procedures to ensure compliance with State law and regulations. Furthermore, we suggest that the Executive Director remit his requests for travel reimbursement to an appropriate travel supervisor for review and approval.

**NOTE – This finding was cleared by Internal Audit on March 8, 2011.**

#### **Audit Objective #14**

Determine that the Lottery has adequate written policies and procedures for employee travel expenditures.

**No Findings or Recommendations.** The Lottery has established adequate written policies and procedures to govern employee travel expenditures (*Travel Expense Reimbursement Policy*).

#### **Audit Objective #15**

Determine that all travel expenditures are reimbursed in accordance with the Lottery's policies and procedures, adequately supported, and approved by the appropriate personnel. Prepare a monthly schedule of travel expenditures.

**No Findings or Recommendations.** Internal Audit reviewed the Arkansas Scholarship Lottery travel expenditures for the months of December 2010, January 2011, February 2011, March 2011, April 2011, and May 2011 for compliance with the Lottery's policies and procedures, adequate supporting documentation, and proper authorization. Internal Audit will continue to regularly review Lottery travel expenses and prepare monthly schedules of employee travel reimbursements as requested by the Arkansas Lottery Commission.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Legislative Audit Management Letter Finding #6:**

Review of payroll and related records revealed the Agency made improper retroactive payments to two employees for periods 12/13/09 through 3/28/10 and 5/01/10 totaling \$6,296. Ark. Code Ann. § 19-4-1610 states "no increase in the rate of pay, either by paying the full amount of the maximum salary or by placing an employee in a position calling for a greater salary, shall be construed as authorizing the payment of any retroactive salary to the employee" except for "salary payments made to correct an administrative error". However, the retroactive pay was for time before the effective dates of the position reclassifications.

#### **Legislative Audit Recommendation for Management Letter Finding #6:**

We recommend that the Agency ensure that retroactive payments be supported by appropriate documentation and seek recovery of the amounts overpaid.

#### **Audit Objective #16**

Determine that the Lottery did not make any improper retroactive payroll payments to employees from July 1, 2010 through December 31, 2010.

#### **Status as of July 8, 2011**

#### **Audit fieldwork complete – No findings or recommendations**

Internal Audit reviewed payroll records for retroactive payments to employees involving position reclassifications. In addition, Internal Audit inquired of appropriate Lottery personnel regarding retroactive payments to Lottery employees. No instances of improper retroactive payments were noted.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

#### Status Report – July 8, 2011

##### Audit Objective #17

Determine if the Lottery management's amendment of the personnel action forms (administrative error correction) resolves Legislative Audit's finding and recommendation.

##### Status as of July 8, 2011

##### Audit fieldwork in progress

- Per Legislative Audit's recommendation, Lottery management submitted a memorandum to the Department of Finance and Administration – Office of Personnel Management dated February 15, 2011 requesting a review of the actions taken by the Lottery's Human Resources Division in regards to the granting retroactive pay to two employees.
- The Department of Finance and Administration – Office of Personnel Management responded in a letter dated February 17, 2011 indicating that there was not enough information provided to address the issue.
- Lottery management provided the Department of Finance and Administration – Office of Personnel Management additional information regarding the retroactive payments on June 3, 2011.
- The Lottery has not received any further correspondence from the Department of Finance and Administration – Office of Personnel Management regarding this matter as of July 8, 2011.
- Lottery management maintains that the two employees in question were legally entitled to the funds received.
- Internal Audit will continue to monitor this finding.

**Arkansas Lottery Commission – Internal Audit**

**Review of Findings and Recommendations from the Division of Legislative Audit's  
June 30, 2010 Audit Report and Management Letter**

**Status Report – July 8, 2011**

**Audit Objective #18**

If applicable, determine if improper retroactive payments have been recovered.

**Status as of July 8, 2011**

**Audit fieldwork planned (if necessary)**

Internal Audit will perform the audit fieldwork associated with this objective when a final resolution has been reached regarding the Lottery seeking recovery of the retroactive payments noted in the finding.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Legislative Audit Management Letter Finding #7:**

The Control Objectives for Information and related Technology (COBIT) Delivery and Support Domain 11 outlines the best practices for ensuring financial data is complete, accurate and valid. Controls should be in place to ensure proper management review and/or approval of all financial transactions. Additionally, financial accounting software processing ability should be adequate to meet the control environment needs of the entity. The Agency's financial accounting software and related procedures contains the following deficiencies:

- The software allows a valid financial transaction to be deleted in a manner that completely erases the transaction from the original financial records. The only information about the deleted transaction is kept in an audit log file. There is no documentation to indicate that management is reviewing the audit log file to determine that transaction deletion was properly approved and appropriate for the circumstances.
- The software only has the capability to identify 7 payroll deductions on an employee's remuneration statement, however many employees have more than 7 deductions. Additionally, Agency staff must account for some payroll deductions outside the accounting software and adjust federal reporting forms accordingly.
- The software does not have adequate controls to prevent or detect a salary overpayment for a position's pay grade maximum in accordance with Ark. Code Ann. § 21-5-101. In addition, the software lacks the ability to limit the maximum number of employees authorized by §§ 23-115-305 and 307.

These situations could allow errors or fraud to occur and not be detected in a timely basis.

#### **Legislative Audit Recommendation for Management Letter Finding #7:**

We recommend that the Agency work with the application vendor to implement additional controls that will strengthen the control environment.

**Arkansas Lottery Commission – Internal Audit**

**Review of Findings and Recommendations from the Division of Legislative Audit's  
June 30, 2010 Audit Report and Management Letter**

**Status Report – July 8, 2011**

**Audit Objective #19**

Determine if the feature that allows the deletion of transactions in the current accounting period has been deactivated.

**Status as of July 8, 2011**

**Audit fieldwork complete – No findings or recommendations**

The administrator rights associated with the financial accounting software were assigned to an individual outside the Lottery's Finance Department. Therefore, the Lottery's Chief Financial Officer no longer has the capability to delete transactions entered into the accounting system or the ability to activate or deactivate the "delete" function for any user, including himself.

**Audit Objective #20**

Determine if Lottery management has upgraded current payroll software or implemented new payroll software to ensure that the capability exists to present all applicable deductions on an employee's remuneration statement.

**Audit Objective #21**

Determine if Lottery management has upgraded current payroll software or implemented new payroll software to prevent or detect a salary overpayment for a position's grade and to ensure that the maximum number of employees authorized is not exceeded.

**Status as of July 8, 2011**

**Audit fieldwork in progress**

Lottery management presented numerous options regarding accounting software to the Arkansas Lottery Commission's Audit and Legal Committee on June 30, 2011. The options included utilizing the Arkansas Administrative Statewide Information System (AASIS) for accounting and/or payroll functions. The Audit and Legal Committee reviewed the options and voted to recommend that the Lottery utilize an updated version of the current accounting software and implement additional internal controls that will resolve the issues noted in the finding.

## **Arkansas Lottery Commission – Internal Audit**

### **Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter**

#### **Status Report – July 8, 2011**

Internal Audit noted the following:

- The number of the deduction fields in the system is being increased in the 2012 version from the 30 to 40 fields. According to the Chief Fiscal Officer this will allow enough data fields to itemize all applicable deductions on a Lottery employee's paystub. This will resolve Objective #20.
- A customized report has been developed within the current accounting system to facilitate the monitoring of the maximum salary allowable for a pay grade and the maximum number of employees authorized. The report is reviewed and verified for compliance by the Human Resources Director for each payroll. Implementation of these compensating controls will resolve Objective #21.

This finding will be cleared by Internal Audit following the Arkansas Lottery Commission's approval of the Audit and Legal Committee's recommendation. The Lottery Commission will meet on July 13, 2011.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

#### Status Report – July 8, 2011

#### **Legislative Audit Management Letter Finding #8:**

Review of internal controls over cash receipts for the collection of retailer fidelity fees totaling \$18,775 and retailer application fees totaling \$161,381, identified controls that were not operating as designed. All incoming mail is to be processed by the Security Division which includes entering all checks received into the mail check log which is maintained on SharePoint and approved by the Treasurer. The mail and checks are subsequently to be distributed to the appropriate departments for processing. During our test, we noted that checks were being deposited that had not been processed through the security division; all checks were not deposited timely; and, although the check log was being approved by the Treasurer, the Treasurer does not receive copies of the checks or other documents to ensure that the check log is complete.

#### **Legislative Audit Recommendation for Management Letter Finding #8:**

We recommend the Agency strengthen internal controls over cash receipts.

**NOTE – This finding was cleared by Internal Audit on March 8, 2011.**

#### **Audit Objective #22**

Determine that the Lottery has adequate written policies and procedures for the cash receipting process.

**No Findings or Recommendations.** The Lottery has established adequate written policies and procedures to govern cash receipts (*Check and Monetary Receipt Policy*).

#### **Audit Objective #23**

Determine that cash receipts are processed in accordance with policies and procedures, deposited in a timely manner, and properly recorded in the Lottery's general ledger.

**No Findings or Recommendations.** Based on a test of transactions conducted by Internal Audit, cash receipts are processed in accordance with the *Check and Monetary Receipt Policy*, deposited in a timely manner, and properly recorded in the Lottery's general ledger.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### **Legislative Audit Management Letter Finding #9:**

Review of internal controls over disbursements revealed that controls over procurement are inadequate. The Agency's policy requires a Vice-President's approval for non-procurement card purchases over \$500. However, the Agency's policy also states that approval is considered to have occurred with the Vice-President's manual signature on the check. This control is ineffective since the check would not be signed until after the purchase had occurred and the item had been received. The Agency's controls appear to be minimal compared to best practices and have the potential to allow unauthorized or unallowable purchases and/or liabilities to be incurred by the Agency.

#### **Legislative Audit Recommendation for Management Letter Finding #9:**

We recommend the Agency ensure that proper controls are in place and operating effectively by adequately reviewing all supporting documentation for purchases prior to the disbursement of funds.

**NOTE – This finding was cleared by Internal Audit on February 8, 2011.**

#### **Audit Objective #24**

Determine that the Lottery has adequate written policies and procedures for disbursements.

**No Findings or Recommendations.** Lottery management has established adequate written policies and procedures to govern disbursements (*Purchasing and Invoice Payment Policy*).

#### **Audit Objective #25**

Determine that cash disbursements are processed in accordance with policies and procedures, adequately supported, reviewed and approved prior to the disbursement of funds, and properly recorded in the Lottery's general ledger.

**No Findings or Recommendations.** Based on a test of transactions conducted by Internal Audit, cash disbursements are processed in accordance with the *Purchasing and Invoice Payment Policy*, adequately supported, reviewed and approved prior to the disbursement of funds, and properly recorded in the Lottery's general ledger.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

#### Status Report – July 8, 2011

#### Audit Objective #29

Determine that all Marketing Sales Representatives mileage reimbursements are in accordance with the Lottery's policies and procedures, adequately supported, and approved by the appropriate personnel. Prepare a monthly schedule of Marketing Sales Representatives mileage reimbursements.

#### **No Findings or Recommendations.**

- Lottery management held a training session on March 2, 2011 concerning the preparation of the Mileage Log and Reimbursement Form utilized by the Lottery's Marketing Sales Representatives to claim reimbursement for the use of privately owned vehicles.
- Monthly schedules detailing Lottery Marketing Sales Representatives privately owned vehicle reimbursements are prepared by Internal Audit and provided to the Arkansas Lottery Commission.
- Internal Audit conducted a review of Lottery Marketing Sales Representatives privately owned vehicle reimbursements paid during April 2011. Based on our review, the finding is being cleared as of May 9, 2011. Considerable improvements were noted. Internal Audit will continue to periodically review the Lottery Marketing Sales Representatives privately owned vehicle reimbursements.

## Arkansas Lottery Commission – Internal Audit

### Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – July 8, 2011

#### Audit Objective #30

Determine that the Lottery is not reimbursing Marketing Sales Representatives for commuting from their personal residence to their assigned territory.

#### **No Findings or Recommendations.**

- Per consultation with the Department of Finance and Administration, Lottery Management has established a policy stating that all Marketing Sales Representatives whom reside outside their territory will be assigned an official station at the point they cross the county line entering their territory. Therefore, commuting mileage will not be reimbursed to Marketing Sales Representatives for travel to and from their personal residence outside of their assigned territories.
- Based on Internal Audit review of Lottery Marketing Sales Representatives privately owned vehicle reimbursements and consultation with appropriate Lottery staff, all Marketing Sales Representatives whom reside outside their territory have been assigned an official station at the point they cross the county line entering their territory.