

# Arkansas

Scholarship Lottery

"A Natural State of Fun!"

ARKANSAS LOTTERY  
COMMISSION

Dianne Lamberth,  
Chair

Derrick W. Smith,  
Vice Chair

Ben Pickard,  
Secretary/Treasurer

John C. (Smokey)  
Campbell III

George Hammons

Mike Malone

Patty L. Shipp

Susan Ward-Jones

Joe White

Ernie Passailaigue,  
Director

February 10, 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

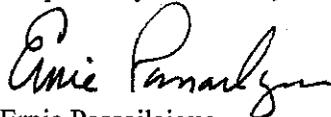
Dear Senator Key:

On behalf of our agency and the Commissioners of the Arkansas Scholarship Lottery, please accept the attached monthly disclosure reports pursuant to §§ 23-115-206 and 23-115-302 for the month of January 2010. The report contains the following information:

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. Arkansas Scholarship Lottery Minority- and Female-owned Business Report
12. Arkansas Scholarship Lottery Vendor Minority- and Female-owned Business Report
13. Arkansas Scholarship Lottery Demographics
14. Internal Auditor Report
15. 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, Chairperson  
Arkansas Lottery Commission

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February 10, 2011

The Honorable Mark Perry, Chair  
Arkansas Lottery Commission Legislative Oversight Committee  
One Capitol Mall, Room R-501  
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Ernie Passailaigue  
Director, Arkansas Lottery Commission

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cc: Ms. Dianne Lamberth, Chairperson  
Arkansas Lottery Commission

## **Arkansas Lottery Commission Term Contracts for Goods and Services January 2011**

The Arkansas Lottery Commission entered into an amended Betty Boop Instant Ticket Game Working Papers agreement with Scientific Games during the month of January 2011. That amended agreement has been provided to the Arkansas Lottery Commission Legislative Oversight Committee.

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

1. Retailer losses for period January 1 through January 31, 2011: There were no retailer losses for the month of January 2011.

2. Debt Set-Off:

a. Department of Finance and Administration:	\$ 4,655.30
b. Office of Child Support Enforcement - Child Support:	<u>\$ 4,179.86</u>

Total Debt Set-Off: \$ 8,835.16

**ARKANSAS LOTTERY COMMISSION**  
**RETAIL SALES BY COUNTY**  
**January 1 through January 31, 2011**

COUNTY	CASH3	CASH 4	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	RAFFLE	TOTAL SALES FOR COUNTY
ARKANSAS	\$3,897.00	\$4,454.00	\$3,565.00	\$465,900.00	\$34,193.00	\$27,951.00	\$1,960.00	\$541,920.00
ASHLEY	\$10,381.00	\$7,801.00	\$2,166.00	\$109,457.00	\$13,631.00	\$14,320.00	\$530.00	\$158,286.00
BAXTER	\$3,619.00	\$2,740.50	\$2,921.00	\$300,286.00	\$34,647.00	\$39,944.00	\$1,860.00	\$386,017.50
BENTON	\$4,300.50	\$1,835.50	\$4,137.00	\$750,373.00	\$127,047.00	\$109,763.00	\$9,800.00	\$1,007,256.00
BOONE	\$2,242.00	\$1,679.00	\$2,280.00	\$337,118.00	\$24,492.00	\$23,661.00	\$1,360.00	\$392,832.00
BRADLEY	\$892.50	\$760.50	\$566.00	\$82,800.00	\$8,284.00	\$7,716.00	\$430.00	\$101,449.00
CALHOUN	\$612.50	\$268.00	\$262.00	\$45,635.00	\$4,238.00	\$4,040.00	\$380.00	\$55,435.50
CARROLL	\$359.50	\$496.50	\$642.00	\$245,360.00	\$14,809.00	\$16,650.00	\$960.00	\$279,277.00
CHICOT	\$4,892.50	\$2,527.50	\$669.00	\$148,691.00	\$43,955.00	\$39,132.00	\$1,190.00	\$241,057.00
CLARK	\$3,736.50	\$991.00	\$2,776.00	\$440,659.00	\$29,760.00	\$25,194.00	\$2,490.00	\$505,606.50
CLAY	\$315.50	\$134.00	\$545.00	\$93,266.00	\$6,560.00	\$4,955.00	\$310.00	\$106,085.50
CLEBURNE	\$1,500.50	\$334.00	\$2,565.00	\$299,324.00	\$41,580.00	\$37,728.00	\$4,700.00	\$387,731.50
CLEVELAND	\$1,045.50	\$642.50	\$257.00	\$134,126.00	\$8,262.00	\$8,393.00	\$990.00	\$153,716.00
COLUMBIA	\$9,663.50	\$4,686.50	\$789.00	\$162,953.00	\$15,495.00	\$14,251.00	\$790.00	\$208,628.00
CONWAY	\$5,765.00	\$3,026.00	\$4,448.00	\$439,511.00	\$41,017.00	\$36,476.00	\$2,810.00	\$533,053.00
CRAIGHEAD	\$6,615.00	\$4,284.00	\$2,349.00	\$1,178,063.00	\$105,294.00	\$81,432.00	\$5,650.00	\$1,383,687.00
CRAWFORD	\$2,624.50	\$1,023.50	\$2,701.00	\$400,967.00	\$70,396.00	\$66,918.00	\$4,310.00	\$548,940.00
CRITTENDEN	\$11,071.50	\$6,033.50	\$2,093.00	\$484,791.00	\$55,758.00	\$61,183.00	\$1,570.00	\$622,500.00
CROSS	\$1,780.00	\$1,284.50	\$656.00	\$223,945.00	\$18,155.00	\$15,797.00	\$640.00	\$262,257.50
DALLAS	\$2,072.00	\$1,148.50	\$1,140.00	\$175,052.00	\$13,575.00	\$13,009.00	\$930.00	\$206,926.50
DESHA	\$1,455.50	\$624.50	\$468.00	\$183,257.00	\$18,892.00	\$15,968.00	\$850.00	\$221,515.00
DREW	\$1,591.50	\$679.50	\$446.00	\$158,803.00	\$18,862.00	\$17,835.00	\$820.00	\$199,037.00
FAULKNER	\$7,566.00	\$4,327.50	\$5,895.00	\$1,109,635.00	\$147,676.00	\$117,502.00	\$11,400.00	\$1,404,001.50
FRANKLIN	\$823.00	\$568.00	\$2,189.00	\$210,683.00	\$21,354.00	\$19,308.00	\$2,280.00	\$257,205.00
FULTON	\$154.50	\$20.00	\$143.00	\$49,867.00	\$5,298.00	\$4,708.00	\$400.00	\$60,590.50
GARLAND	\$5,905.50	\$2,848.50	\$5,135.00	\$836,603.00	\$150,225.00	\$131,722.00	\$8,240.00	\$1,140,679.00
GRANT	\$408.50	\$345.00	\$474.00	\$163,430.00	\$20,557.00	\$18,505.00	\$1,320.00	\$205,039.50
GREENE	\$4,674.00	\$1,127.00	\$1,553.00	\$517,987.00	\$38,989.00	\$29,698.00	\$3,890.00	\$597,918.00
HEMPSTEAD	\$19,713.50	\$9,433.00	\$1,092.00	\$354,608.00	\$20,023.00	\$15,791.00	\$1,170.00	\$421,830.50
HOT SPRING	\$2,254.00	\$1,336.00	\$2,561.00	\$314,998.00	\$35,405.00	\$30,776.00	\$1,840.00	\$389,170.00

**ARKANSAS LOTTERY COMMISSION**  
**RETAIL SALES BY COUNTY**  
**January 1 through January 31, 2011**

COUNTY	CASH 3	CASH 4	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	RAFFLE	TOTAL SALES FOR COUNTY
HOWARD	\$10,816.00	\$4,628.50	\$390.00	\$162,195.00	\$10,480.00	\$7,847.00	\$700.00	\$197,056.50
INDEPENDENCE	\$4,616.00	\$2,551.00	\$4,310.00	\$593,033.00	\$48,184.00	\$40,871.00	\$7,280.00	\$700,845.00
IZARD	\$279.00	\$163.50	\$480.00	\$67,999.00	\$8,034.00	\$8,007.00	\$790.00	\$85,752.50
JACKSON	\$13,049.00	\$4,472.50	\$1,822.00	\$307,983.00	\$25,509.00	\$21,728.00	\$1,410.00	\$375,973.50
JEFFERSON	\$34,867.50	\$19,950.50	\$8,566.00	\$1,466,435.00	\$121,076.00	\$107,937.00	\$6,250.00	\$1,765,082.00
JOHNSON	\$940.50	\$268.50	\$1,249.00	\$240,908.00	\$23,287.00	\$23,452.00	\$2,280.00	\$292,385.00
LAFAYETTE	\$2,842.00	\$1,041.50	\$833.00	\$74,144.00	\$4,422.00	\$3,945.00	\$210.00	\$87,437.50
LAWRENCE	\$1,729.50	\$860.00	\$1,193.00	\$288,688.00	\$17,494.00	\$12,474.00	\$770.00	\$323,208.50
LEE	\$2,073.50	\$1,732.50	\$273.00	\$132,300.00	\$6,221.00	\$5,332.00	\$80.00	\$148,012.00
LINCOLN	\$543.00	\$170.00	\$466.00	\$130,573.00	\$10,980.00	\$8,379.00	\$600.00	\$151,711.00
LITTLE RIVER	\$2,059.50	\$1,158.00	\$728.00	\$67,975.00	\$7,944.00	\$4,500.00	\$240.00	\$84,604.50
LOGAN	\$939.00	\$443.50	\$6,199.00	\$265,463.00	\$23,148.00	\$23,704.00	\$4,150.00	\$324,046.50
LONOKE	\$4,824.50	\$2,871.50	\$4,755.00	\$1,048,516.00	\$113,526.00	\$97,841.00	\$8,480.00	\$1,280,814.00
MADISON	\$148.50	\$321.50	\$1,869.00	\$79,672.00	\$8,466.00	\$8,559.00	\$680.00	\$99,716.00
MARION	\$1,594.00	\$484.50	\$2,825.00	\$164,906.00	\$13,090.00	\$14,168.00	\$730.00	\$197,797.50
MILLER	\$21,435.50	\$6,310.00	\$1,221.00	\$339,158.00	\$30,085.00	\$17,262.00	\$2,010.00	\$417,481.50
MISSISSIPPI	\$31,960.00	\$13,481.50	\$11,033.00	\$586,915.00	\$31,090.00	\$26,160.00	\$1,560.00	\$702,199.50
MONROE	\$2,323.00	\$1,310.00	\$560.00	\$133,552.00	\$17,156.00	\$15,558.00	\$1,050.00	\$171,509.00
MONTGOMERY	\$24.00	\$8.00	\$51.00	\$18,131.00	\$4,691.00	\$4,108.00	\$420.00	\$27,433.00
NEVADA	\$2,266.00	\$750.00	\$870.00	\$237,140.00	\$11,833.00	\$8,681.00	\$560.00	\$262,100.00
NEWTON	\$273.50	\$68.50	\$278.00	\$47,100.00	\$3,120.00	\$3,869.00	\$140.00	\$54,849.00
OUACHITA	\$8,824.00	\$5,492.00	\$4,357.00	\$453,623.00	\$32,630.00	\$29,057.00	\$2,340.00	\$536,323.00
PERRY	\$1,328.00	\$294.00	\$347.00	\$101,342.00	\$13,219.00	\$11,125.00	\$1,160.00	\$128,815.00
PHILLIPS	\$5,066.00	\$3,687.00	\$749.00	\$222,405.00	\$23,837.00	\$25,441.00	\$510.00	\$281,695.00
PIKE	\$148.00	\$59.00	\$1,183.00	\$117,000.00	\$12,192.00	\$9,815.00	\$1,140.00	\$141,537.00
POINSETT	\$6,117.50	\$2,370.50	\$1,804.00	\$535,296.00	\$27,169.00	\$24,024.00	\$1,300.00	\$598,081.00
POLK	\$715.00	\$160.00	\$1,120.00	\$156,333.00	\$16,876.00	\$17,688.00	\$1,390.00	\$194,282.00
POPE	\$5,396.50	\$2,662.50	\$2,981.00	\$840,776.00	\$89,051.00	\$77,219.00	\$9,250.00	\$1,027,336.00
PRAIRIE	\$4,166.50	\$1,397.50	\$1,086.00	\$137,709.00	\$10,956.00	\$9,189.00	\$590.00	\$165,094.00
PULASKI	\$94,108.50	\$59,559.00	\$27,310.00	\$6,207,120.00	\$777,224.00	\$607,925.00	\$40,650.00	\$7,813,896.50
RANDOLPH	\$311.50	\$190.00	\$175.00	\$150,059.00	\$11,595.00	\$9,408.00	\$740.00	\$172,478.50

**ARKANSAS LOTTERY COMMISSION  
RETAIL SALES BY COUNTY  
January 1 through January 31, 2011**

COUNTY	CASH 3	CASH 4	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	RAFFLE	TOTAL SALES FOR COUNTY
SAINT FRANCIS	\$7,750.00	\$3,953.50	\$455.00	\$242,241.00	\$22,834.00	\$22,985.00	\$510.00	\$300,728.50
SALINE	\$5,256.50	\$2,770.50	\$4,798.00	\$1,208,948.00	\$169,307.00	\$138,132.00	\$11,010.00	\$1,540,222.00
SCOTT	\$355.00	\$122.50	\$500.00	\$108,593.00	\$9,133.00	\$8,883.00	\$620.00	\$128,206.50
SEARCY	\$2,788.50	\$209.50	\$352.00	\$94,500.00	\$7,256.00	\$6,919.00	\$550.00	\$112,575.00
SEBASTIAN	\$12,717.00	\$3,923.00	\$4,457.00	\$731,491.00	\$145,364.00	\$140,408.00	\$11,990.00	\$1,050,350.00
SEVIER	\$2,568.00	\$394.50	\$650.00	\$124,448.00	\$8,641.00	\$7,008.00	\$1,030.00	\$144,739.50
SHARP	\$768.50	\$330.00	\$2,045.00	\$159,055.00	\$14,085.00	\$13,081.00	\$3,000.00	\$192,364.50
STONE	\$1,708.50	\$379.00	\$916.00	\$95,878.00	\$10,201.00	\$10,729.00	\$600.00	\$120,411.50
UNION	\$35,787.00	\$20,255.50	\$4,628.00	\$615,027.00	\$42,885.00	\$39,405.00	\$5,840.00	\$763,827.50
VAN BUREN	\$977.00	\$478.00	\$466.00	\$166,095.00	\$20,432.00	\$19,001.00	\$3,660.00	\$211,109.00
WASHINGTON	\$8,030.00	\$5,250.00	\$5,051.00	\$1,286,180.00	\$176,008.00	\$165,681.00	\$13,490.00	\$1,659,690.00
WHITE	\$3,890.50	\$1,730.50	\$4,098.00	\$1,059,975.00	\$87,684.00	\$73,599.00	\$6,750.00	\$1,237,727.00
WOODRUFF	\$2,060.00	\$746.00	\$352.00	\$164,042.00	\$12,599.00	\$10,561.00	\$650.00	\$191,010.00
YELL	\$1,538.00	\$245.50	\$874.00	\$182,590.00	\$17,864.00	\$17,020.00	\$1,080.00	\$221,211.50
<b>GRAND TOTALS</b>	<b>*Cash 3</b> \$473,911.50	<b>*Cash 4</b> \$247,164.50	<b>*Fast Play</b> \$178,208.00	<b>*Instant</b> \$32,031,660.00	<b>*Mega Millions</b> \$3,487,307.00	<b>*Powerball</b> \$3,009,011.00	<b>*Raffle</b> \$236,110.00	<b>*Totals</b> \$39,663,372.00

\*Estimates

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

As of January 31, 2011, there were 1,933 active retailers.

**Arkansas Lottery Commission**  
**Statement of Net Assets**  
**January 31, 2011**

**ASSETS**

**Current assets:**

Cash and Cash Equivalents	\$ 12,183,956.11
Restricted Assets:	
Cash and cash equivalents	63,909,428.69
Accounts receivable	12,820,671.92
Prepaid items	<u>51,567.91</u>
 Total current assets	 <u>88,965,624.63</u>

**Noncurrent assets:**

Restricted assets:	
Cash and cash equivalents	20,040,497.19
Deposits with Multi-State Lottery Asso.	695,577.71
Capital assets:	
Equipment	516,405.53
Leasehold Improvements	498,416.68
Less accumulated depreciation	<u>(226,664.28)</u>
 Total noncurrent assets	 <u>21,524,232.83</u>
 Total assets	 <u>\$ 110,489,857.46</u>

**LIABILITIES**

**Current liabilities:**

Accounts payable	\$ 1,141,198.85
Prizes payable	16,413,860.49
Accrued and other liabilities	1,218,109.12
Due to other funds	206,920.00
Due to ADHE	72,914,670.43
Compensated absences	277,893.16
Deferred revenue	<u>432,624.50</u>
 Total current liabilities	 <u>92,605,276.55</u>

**Noncurrent liabilities:**

Net postemployment benefits payable	<u>230,021.67</u>
 Total liabilities	 <u>92,835,298.22</u>

**NET ASSETS**

**Net assets:**

Invested in capital assets	788,157.93
Restricted for:	
Scholarship shortfall fund	20,000,000.00
Retailer fidelity fund	31,154.44
Deposits with MUSL	695,577.71
Unrestricted	<u>(3,860,330.84)</u>
 Total net assets	 <u>17,654,559.24</u>
 Total liabilities & net assets	 <u>\$ 110,489,857.46</u>



**Arkansas Scholarship Commission**  
**Net Proceeds Transfer to Ed Trust Computation**  
**For the Seven Months Ending January 31, 2011**

Year to date

<b>Operating revenues:</b>	
Instant ticket SETTLEMENTS	\$ 214,922,317.00
Online ticket sales	41,926,151.58
Retailer application, fidelity and service fees	650,837.94
Other revenue	<u>2,162.76</u>
 Total operating revenues	 <u>257,501,469.28</u>

<b>Operating expenses:</b>	
Instant game prizes SETTLEMENTS	146,953,777.11
Online game prizes	20,243,917.35
Retailer commissions	14,350,029.92
Gaming contract costs	13,253,889.82
Compensation and benefits	3,447,090.31
Marketing, advertising and promotions	2,334,949.98
General and administrative expenses	811,610.91
Services provided by other agencies	177,200.00
Legal and professional services	228,070.45
Less Current year Capital Asset cost	<u>24,572.52</u>
Total operating expenses	<u>201,825,108.37</u>

Change in net proceeds from operations 55,676,360.91

**Nonoperating revenue (expense):**

Interest Income	302,420.00
EDUCATION TRUST FUNDING-Current Year	(46,081,086.74)
Less Current year Fidelity Fund fees	(12,323.13) restricted fund
Less Current year MUSL Reserves additions	(238,309.74) see 23-115-103(17) and (19)(A)&(B)
Less fiscal year 2010 subsequent transactions	<u>(613,286.22) prior year expense items not previously charged to Net Proceeds</u>

**NET PROCEEDS DUE TO EDUCATION-Current Month** **\$ 9,033,775.08**

Totals	Transfer	Interest	Total
	\$ 72,559,738.51	\$ 354,931.92	\$ 72,914,670.43
November 2009 funding - 12/15/09	\$ 8,120,211.99		\$ 8,120,211.99
December 2009 funding - 1/14/10	\$ 9,038,495.35	\$ 1,835.39	\$ 9,040,330.74
January 2010 funding - 2/15/10	\$ 10,829,280.27	\$ 6,109.34	\$ 10,835,389.61
February 2010 funding - 3/12/10	\$ 9,125,874.01	\$ 10,956.20	\$ 9,136,830.21
March 2010 funding - 4/14/10	\$ 10,467,824.60	\$ 13,741.79	\$ 10,481,566.39
April 2010 funding - 5/13/10	\$ 11,014,624.69	\$ 20,506.68	\$ 11,035,131.37
May 2010 funding - 6/14/10	\$ 8,937,980.78	\$ 24,355.11	\$ 8,962,335.89
June 2010 funding - 7/14/10	\$ 9,065,920.17	\$ 29,966.86	\$ 9,095,887.03
July 2010 funding - 8/13/10	\$ 6,059,225.23	\$ 32,900.15	\$ 6,092,125.38
August 2010 funding - 9/14/10	\$ 8,503,421.96	\$ 37,490.77	\$ 8,540,912.73
September 2010 funding - 10/14/10	\$ 7,925,706.45	\$ 41,129.77	\$ 7,966,836.22
October 2010 funding - 11/12/10	\$ 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)
November 2010 funding - 12/15/10	\$ 7,197,503.10	\$ 18,042.76	\$ 7,215,545.86
December 2010 funding - 1/14/11	\$ 8,235,343.71	\$ 20,925.06	\$ 8,256,268.77
January 2011 funding - 2/11/11	\$ 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

**ARKANSAS LOTTERY COMMISSION MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**  
**January 1 through January 31, 2011**

Vendors	Goods or Services	Diversity Classification	Fiscal 2011	January 2011
African American Perspectives	Advertising/Public Relations	Minority-owned	\$1,250.00	
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	\$54,597.20	\$1,820.94
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	\$4,538.15	
Mr. B's 2 Mobile Hand Wash & Wax	Car Detail and Inspection	Minority-owned	\$704.58	
RB Professional Cleaning Service	Janitorial Services	Female-owned	\$3,090.60	\$390.60
RU-MEL & Associates, Inc.	Advertising/Public Relations	Minority-owned	\$950.00	
SHI International Corp.	Computer Software	Female-owned	\$8,867.98	\$2,337.85
STAND News	Advertising/Public Relations	Minority-owned	\$3,600.00	\$1,200.00
The American Banner Publishing, LLC	Advertising/Public Relations	Minority-owned	\$1,233.00	\$1,233.00
Trivia Marketing	Advertising/Public Relations	Female-owned	\$986.33	
<b>Totals</b>			<b>\$84,665.03</b>	<b>\$6,982.39</b>

**INTRALOT MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**

January 1 through January 31, 2011

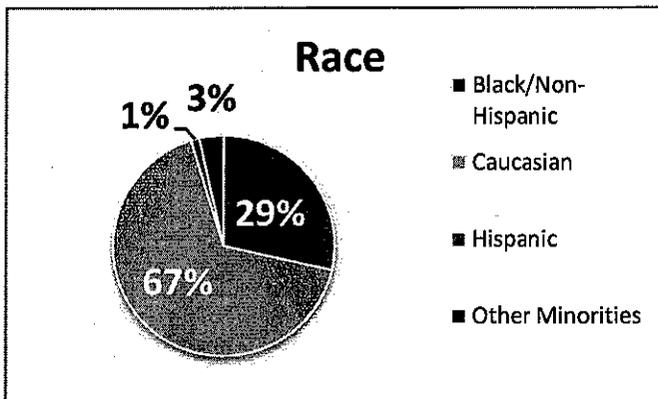
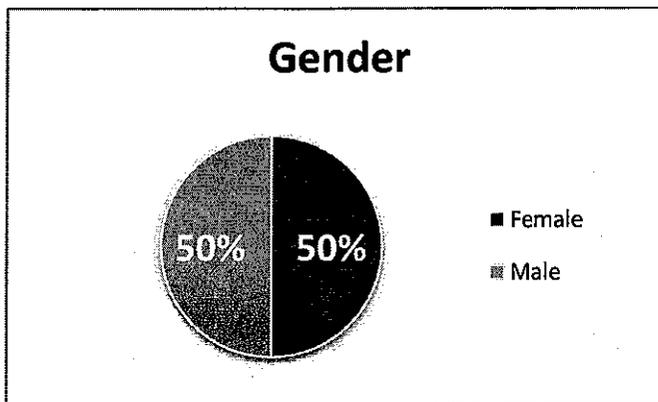
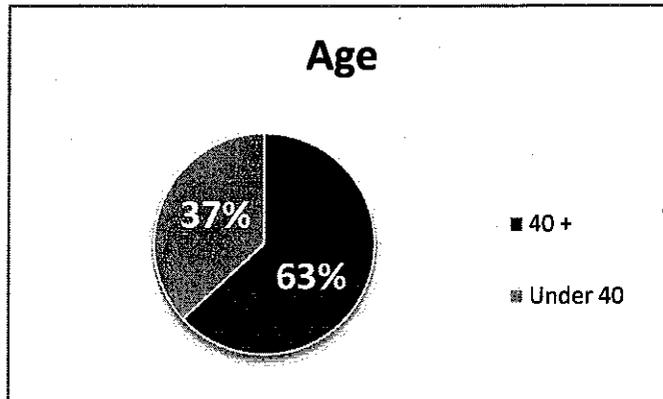
Vendors	Goods or Services	Diversity Classification	Fiscal 2011	January 2011
Finders Keepers	Technical Support	Female-owned	\$58,822.40	
Goddess Products	Office Furniture/Supplies	Minority-owned	\$348.61	
J. Kelly Referrals & Information Services, Inc.	Call Center/Information Services	Minority-owned	\$118,194.33	\$13,873.14
<b>Totals</b>			<b>\$177,365.34</b>	<b>\$13,873.14</b>

**SCIENTIFIC GAMES MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**

January 1 through January 31, 2011

Vendors	Goods or Services	Diversity Classification	Fiscal 2011	January 2011
Choice Promotions	Promotional Items	Minority-owned	\$47,966.44	
Expedited Transportation Service	Transportation Services	Female-owned	\$16,326.95	\$3,481.95
Indoff, Incorporated	Office Supplies	Minority-owned	\$2,504.49	\$2,504.49
Mr. Clean	Janitorial Services	Minority-owned	\$2,564.70	
Premier Staffing	Staffing Services	Female-owned	\$8,987.76	
State Imaging Supply	Office Supplies	Female-owned	\$358.13	
<b>Totals</b>			<b>\$78,708.47</b>	<b>\$5,986.44</b>

**Arkansas Lottery Commission  
Demographics – January 2011**



**Total Number of Employees as of January 31, 2011: 84**

**Gender:**

Females – 42

Males – 42

**Race:**

Black/Non-Hispanic - 24

Caucasian - 56

Hispanic – 1

Other – 3

**Age:**

Under 40 – 31

40+ – 53

## **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 – February 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 February 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.

## 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 – February 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.

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

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

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

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

A letter received by ALC from the Co-chairs of the LOC dated December 14, 2010 recommended the following:

*Effective immediately, the Arkansas Lottery Commission will provide immediate notice to the Arkansas Lottery Commission Legislative Oversight Committee of:*

- 1. Any agreement entered into by the Lottery Commission as a result of a change to an existing major procurement contract; and*
- 2. Any ancillary agreement entered into by the Lottery Commission as a result of the Commission's selection of an option under an existing major procurement contract.*

## 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 – February 8, 2011

*Notice provided by the Lottery Commission to the Legislative Oversight Committee will include:*

- 1. Date of the agreement;*
- 2. Term of agreement (time period);*
- 3. Vendor or other parties to the agreement; and*
- 4. Value (cost or cost savings) projected for the agreement.*

Lottery management has indicated that the recommendations contained in the letter have been adopted.

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

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

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

##### Audit fieldwork in progress

A review of recently released Arkansas Scholarship Lottery instant ticket games indicated that the Lottery has submitted to the Arkansas Lottery Commission Legislative Oversight Committee documentation for all licensed instant ticket game agreements entered into from July 1, 2010 through January 31, 2011. The Monopoly licensing agreement was entered into by the Lottery on September 14, 2010 and submitted to the Legislative Oversight Committee on January 19, 2011. The Betty Boop agreement was entered into by the Lottery on November 10, 2010 and submitted to the Legislative Oversight Committee on February 2, 2011.

Internal Audit plans to conduct additional fieldwork for this objective.

## 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 – February 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.

#### **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.

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

Audit fieldwork complete – 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 – February 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.

#### Status as of February 8, 2011

##### Audit fieldwork in progress

A list of Lottery Commissioners and employees has been provided to all of the Lottery Claim Centers to manually compare to the name on the completed *Arkansas Scholarship Lottery Claim Form*. Internal Audit noted that the *Arkansas Scholarship Lottery Claim Checklist* has not been updated to include a check-off to indicate that the name of the winner has been compared to the list of Lottery Commissioners and employees.

**Note** – On February 8, 2011, Lottery management revised the *Arkansas Scholarship Lottery Claim Checklist* to include a check-off indicating that the claimant's name was verified against the ineligible player list.

Internal Audit conducted a review of high-tier prize claims (above \$500) at all four Arkansas Scholarship Lottery Claims Centers. The audit fieldwork did not reveal any instances of prize claim payments being made to an ineligible player.

The Arkansas Lottery Commission Legislative Oversight Committee has proposed legislation that would change the requirements regarding prohibited players. The new language, if approved, would read as follows:

*23-115-403 (f) (1) A lottery prize that exceeds the amount of five hundred dollars (\$500) shall not be paid 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 indicated that if this proposed Legislation is passed by the Legislature, a database of all ineligible players will be built-in to the gaming system to automatically verify the eligibility of a player in the validation process of high-tier prize payments. A work order to develop this module has been submitted by Lottery management to the gaming system vendor.

Internal Audit plans to conduct additional fieldwork for this objective.

**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 – February 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 – February 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 February 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 – February 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 February 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 affected 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 February 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 – February 8, 2011**

#### **Audit Objective #11**

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

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

##### Audit fieldwork in progress

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

The Vice President of Administration and the Vice President of Gaming indicated that they have prepared letters outlining the methodologies in which they plan to reimburse the Lottery for their compensatory time used. The letters will be presented to the Arkansas Lottery Commission for review. As of December 31, 2010, the Vice President of Gaming has repaid 48 of his 134.5 hours due by reducing his annual leave balance. The Vice President of Administration has a balance of 178.5 hours as of December 31, 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 – February 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.

#### **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).

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

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

The Legislative Joint Audit Committee has requested an Attorney General's opinion regarding the Arkansas Lottery Commission's Executive Director's retirement contributions.

## **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 – February 8, 2011**

#### **Audit Objective #13**

If applicable, determine that the Arkansas Lottery Commission has been reimbursed any excess retirement contributions.

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

##### Audit fieldwork in progress

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.

Internal Audit will monitor the reimbursement of excess retirement contributions.

## 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 – February 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 – February 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.

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

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

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

Audit fieldwork complete – No findings or recommendations

The Lottery appears to have adequate written policies and procedures governing 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.

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

Audit fieldwork in progress

Arkansas Scholarship Lottery travel expenditures for the months of December 2010 and January 2011 have been reviewed by Internal Audit for compliance with the Lottery's policies and procedures, adequate supporting documentation, and proper authorization. There are no reportable findings and recommendations.

Monthly travel schedules detailing all Lottery employee travel were prepared by Internal Audit and provided to the Arkansas Lottery Commission for December 2010 and January 2011.

Internal Audit will continue to review travel expenditures for the next few months to ensure that Lottery management has strengthened internal controls as it relates to travel expenditures.

## 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 – February 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 February 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.

#### **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 February 8, 2011**

Audit fieldwork in progress

Legislative Audit has recommended that the Lottery seek a review of this matter from the Department of Finance and Administration – Office of Personnel Management.

**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 – February 8, 2011**

**Audit Objective #18**

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

**Status as of February 8, 2011**

**Audit fieldwork planned (if necessary)**

Internal Audit will perform the audit fieldwork associated with this objective, if necessary, following the Department of Finance and Administration – Office of Personnel Management's review.

## 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 – February 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 – February 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 February 8, 2011**

Audit fieldwork complete – No findings or recommendations

Internal Audit determined that the ability to delete posted journal entries has been deactivated for employees that report to the Lottery's Chief Financial Officer. However, the Chief Financial Officer, as "administrator" of the accounting software, maintains the capability to delete any transaction entered by him or any other user, as well as, the ability to activate or deactivate the "delete" function for the user.

**Note** – On February 8, 2011, 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 accounting software or implemented new accounting software to ensure that the capability exists to present all applicable deductions on an employee's remuneration statement.

**Status as of February 8, 2011**

Audit fieldwork planned

The Lottery has not changed or updated the Lottery's payroll software. Lottery management is awaiting the outcome of pending legislation to determine if payroll functions will be processed through the Arkansas Administrative Statewide Information System (AASIS).

**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 – February 8, 2011**

**Audit Objective #21**

Determine if Lottery management has upgraded current accounting software, implemented new accounting software, or implemented additional compensating controls 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 February 8, 2011**

**Audit fieldwork planned**

The Lottery has not changed or updated the Lottery's payroll software. Lottery management is awaiting the outcome of pending legislation to determine if payroll functions will be processed through the Arkansas Administrative Statewide Information System (AASIS).

## 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 – February 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.

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

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

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

##### Audit fieldwork in progress

Internal Audit was provided a copy of the *Check and Monetary Receipt Policy* on February 7, 2011.

Internal Audit will review the policy during February 2011.

#### **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.

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

##### Audit fieldwork planned

Following a review of the *Check and Monetary Receipt Policy*, Internal Audit will conduct a test of cash receipts for compliance with the policy and procedures.

## 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 – February 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.

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

Audit fieldwork complete – No findings or recommendations

Lottery management has established written policies and procedures to govern disbursements (*Purchasing and Invoice Payment Policy*). Based on a review conducted by Legislative Audit and Internal Audit the policy was revised to clarify certain language concerning approvals. The latest revision dated February 8, 2011 appears to be in compliance with State law and regulations.

#### **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.

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

Audit fieldwork complete – No findings or recommendations

Based on a test of transactions conducted by Internal Audit, the Lottery appears to be in compliance with the *Purchasing and Invoice Payment Policy*.

## 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 – February 8, 2011

#### **Legislative Audit Management Letter Finding #10:**

The instant ticket lottery game service contract requires a fee paid to the vendor of 1.5% of the prize fund for the costs associated with the Points for Prizes™ program. The Agency paid the vendor \$3.3 million to operate the program during the year ended June 30, 2010. Agency personnel were unable to provide an adequate explanation as to calculation of the fee and specifically, how to determine the value of the prize fund. Agency personnel appeared to lack knowledge required to calculate the fee independent of the vendor. The Agency's inability to understand and recalculate the fee could cause vendor overpayments to occur thus reducing funds available for scholarships.

#### **Legislative Audit Recommendation for Management Letter Finding #10:**

We recommend the Agency strengthen internal controls surrounding the Points for Prizes™ program by ensuring Agency employees adequately review and understand the methodology for calculating payments to the instant ticket lottery game service vendor.

#### **Audit Objective #26**

Determine that the Lottery and the instant ticket game vendor have clarified the calculation for the "Points for Prizes" fee.

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

##### Audit fieldwork in progress

Scientific Games provided a formula for the calculation of the Points for Prizes in a document dated February 1, 2011.

Internal Audit will review the information provided during February 2011.

#### **Audit Objective #27**

Determine that the Lottery is remitting to the instant ticket game vendor the correct amount for the "Points for Prizes" fee.

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

##### Audit fieldwork planned

Internal Audit will test the Points for Prizes payments upon implementation of the new formula noted in the previous objective.

## 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 – February 8, 2011

#### **Legislative Audit Management Letter Finding #11:**

Travel regulation R1-19-4-903 states mileage shall be reimbursed and computed using map mileage. The auditor was unable to adequately test marketing sales representatives' travel due to insufficient documentation. Information provided on the employees' travel reimbursement forms was vague and/or incomplete limiting the Agency's ability to properly review the supporting documentation prior to payment. In addition, the auditor was unable to verify miles traveled in order to recalculate mileage reimbursement for accuracy. Travel reimbursements for marketing sales representatives totaled \$198,983, including one employee who was reimbursed \$18,858 for 44,900 miles driven during a 10 month period of time. Insufficient supporting documentation could allow errors or misappropriation of assets to occur and go undetected by the Agency, leading to overpayments made to Agency employees.

#### **Legislative Audit Recommendation for Management Letter Finding #11:**

We recommend the Agency implement procedures requiring adequate documentation of travel made by the Agency's marketing sales representatives to allow for a proper review of travel reimbursements.

#### **Audit Objective #28**

Determine that the Lottery has adequate written policies and procedures concerning personal vehicle mileage reimbursements for Marketing Sales Representatives.

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

Audit fieldwork complete – No findings or recommendations

The Reimbursement for Use of Privately Owned Vehicle section of the Lottery's *Travel Expense Reimbursement Policy* provides guidance for Marketing Sales Representatives in regards to personal vehicle mileage 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 – February 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.

#### Status as of February 8, 2011

##### Audit fieldwork in progress

A review of the *Mileage Log and Reimbursement Forms* submitted during December 2010 revealed instances in which adequate supporting documentation was not present for vicinity mileage exceeding 24 miles as required by the Lottery's *Travel Expense Reimbursement Policy*. Additionally, Internal Audit noted several immaterial instances of incorrect preparation of the *Mileage Log and Reimbursement Form*.

Lottery management has indicated that this issue will be corrected. Lottery management also indicated that the Marketing Sales Representatives and the Regional Sales Managers will receive training in regard to the preparation of the *Mileage Log and Reimbursement Form*.

Monthly schedules detailing Lottery Marketing Sales Representatives privately owned vehicle reimbursements were prepared by Internal Audit and provided to the Arkansas Lottery Commission for December 2010 and January 2011.

Internal Audit will conduct additional testing for this objective at a later date.

**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 – February 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.

**Status as of February 8, 2011**

**Audit fieldwork in progress**

A review of the *Mileage Log and Reimbursement Forms* submitted during December 2010 revealed instances of Marketing Sales Representatives residing outside of their assigned territories being reimbursed for mileage between their personal residence and their assigned territory.

Lottery management has indicated that this issue will be corrected. Lottery management also indicated that the Marketing Sales Representatives and the Regional Sales Managers will receive training in regard to the preparation of the *Mileage Log and Reimbursement Form*.

Internal Audit will conduct additional testing for this objective at a later date.

**Arkansas Lottery Commission**  
**Instant Games**  
**January 2011**

1. Sales for the following games began January 4, 2011. No ending dates have been determined for these games.

\$1 Suits

\$2 Betty Boop™\*

\$5 King's Ransom

\$10 Money Money Money

\*Betty Boop is a licensed property game. There are no additional merchandise costs for this game.