

3.7 Background Check. An applicant for a retailer license is subject to a background check including a credit check and a criminal history check conducted by the Arkansas State Police and the Federal Bureau of Investigation. Issuance of a retailer license is dependent on passing the required background checks. The applicant shall sign a consent to the release of information for all checks.

3.8 Waiver. In submitting an application, the applicant expressly waives any claim against the State of Arkansas, its agents, officers, employees, and representatives, and the ALC, its Director, agents, officers, employees, and representatives for damages that may result. Each applicant also accepts any risk of adverse public notice, embarrassment, criticism, damages, or claims which may result from any disclosure or publication by a third party of any public information on file with the ALC.

Section 4. Retailer License.

4.1 Non-transferability of license. A retailer license is not transferable and shall not be sold, given or assigned to any person. In the event of the proven incapacity, death, receivership, bankruptcy or assignment for benefit of creditors of any retailer, upon approval of the Director, the license may be transferred to a court appointed or court confirmed guardian, executor or administrator, receiver, trustee, or assignee for the benefit of creditors, who may continue to operate the activity under the license, subject to the provisions of these rules.

- (a) The person to whom a license is transferred hereunder must be otherwise qualified to hold a license.
- (b) The license following transfer shall be void upon that person ceasing to hold such a court appointed or court confirmed position.
- (c) The Director may condition the transfer of any license under this section upon the posting of a bond or cash in lieu of a bond in such terms and conditions as the Director may require.

4.2 License Term and Renewal. A retailer's license remains in full force and effect until the termination date indicated upon the license, but in no case more than two ~~one~~ (2) years from the date of the issuance of the license, the first operational year excepted. The Director may implement a program to issue licenses biennially, if in his or her discretion, it provides more efficient customer service to retailers and cost savings in the administration of the program. To request renewal of a retailer license, every licensed retailer shall file a renewal application and shall pay a renewal fee as set forth in Section 3.3 of these rules. A license shall not be issued or renewed until the retailer contract is signed.



Demographic Research
Lottery Commission Review

March 9, 2011

Prepared by:

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A S S O C I A T E S

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Agenda

Today's Objective:

Provide insights into the Arkansas Lottery players and their perceptions of the Lottery.

Contents:

- Key Business Dynamics
- What Do People Think of the Arkansas Lottery?
- Who Plays the Arkansas Lottery?
- How Can the Arkansas Lottery be Improved?
- Key Conclusions and Recommendations

Note: This is a summary report presentation. The full report has been provided to Intralot.

Demographic Study Objectives

As the first demographic study conducted on behalf of the Arkansas Lottery, this research has been designed to establish many of the priorities and benchmarks for future Lottery measurement.

Key study objectives include:

- Determine demographic information of Lottery players (i.e. Core, Light, and Lapsed players) and the degree to which their playing habits contribute to spending.
- Better understand the usage and key playing patterns of various games.
- Determine the Arkansas Lottery brand image.
- Quantify the effects of large jackpots for both Mega Millions and Powerball sales.
- Provide insights into the impact of Arkansas Lottery marketing programs.
- Better define player wants, needs, and drivers.
- Determine the key business drivers.
- Refine the business segments and identify which ones are most likely to respond to the Arkansas Lottery's marketing efforts.

Key Observations

- The Arkansas Lottery appears to be establishing a strong foothold.
 - Current Player (past 6 month) incidence is estimated at 29% with past 12 month player incidence estimated at 36%.
 - Overall, the Lottery is well perceived.
 - Player spending has declined for several games.

- On a top of mind basis the Arkansas Lottery brand is primarily associated with the Instant or Scratch Game Category, and secondarily with the Powerball and Mega Millions games.
 - Player perceptions of the Lottery, its games, and the retail experience tend to be positive.
 - The multi-state games and their inherent excitement, can be leveraged for more growth.
 - Other game awareness and penetration appears lagging.

- Lottery marketing programs are making inroads:
 - Advertising and the web site are reaching many players.
 - Other key programs are “being discovered,” with perceived high involvement among those participating.

- Further development of the Arkansas Lottery will require investment:
 - The games are of lesser relevance among non players.
 - The current games are perceived to compete with other forms of gaming.
 - Regular playership and participation in Lottery promotional programs can be broadened.
 - Winner awareness continues to develop.

- Converting non players will be a significant challenge for the Lottery.

Research Methodology

- 1,198 interviews were conducted by Crestwood Associates between January 5 and January 14, 2011 among adult (18+) Arkansas residents to elicit information on key behaviors and perceptions relevant to the Arkansas Lottery and its games.
- To ensure a representative sample of adult Arkansas residents were represented in this study, Crestwood employed a dual interviewing methodology that combined 801 web based panel interviews with 397 random digit dial (RDD) telephone interviews. Sampling disposition was as follows:

Quota Group	Web Based Interviews	RDD Telephone Interviews	Total Interviews
Players	618	238	856
Non Players	183	159	342
Total	801	397	1,198

- On average, respondents were able to complete the online survey in approximately 15 minutes while respondents taking the telephone survey averaged 17 minutes.
- Data obtained from the two collection methodologies was merged and the resulting data file was then weighted in accordance to US Census figures (e.g. age, gender, race and ethnicity) to ensure it reflected Arkansas' diverse and unique composition.

Conventions Employed Throughout This Report

- A number of *Totals* are employed throughout this report as well as a number of distinct Player and Non Player designations. For the sake of clarity, they are defined as follows:

Player Group	Definition
All Respondents	All Players and Non Players surveyed. Includes all 1,198 respondents.
All Players	All adult Arkansas residents indicating they have played an Arkansas Lottery game within 12 months of their being interviewed.
Core Players	Arkansas Lottery Players who played a game within one week of their being surveyed <i>and</i> indicate that they purchase at least one game on a weekly basis.
Light Players	Arkansas Lottery Players who played a game within the past six (6) months of their being surveyed and play and purchase with less frequency than the Core Players.
Lapsed Players	Arkansas Lottery Players who played a game within the past 12 months of their being surveyed, <i>but not in the past six (6) months</i> .
Current Players	Arkansas Lottery Players who played a game within the past six (6) months; includes all of the Core and Light Players, but not the Lapsed Players.
Non Players	All adult Arkansas residents indicating they either played an Arkansas Lottery game more than 12 months ago <i>or</i> have never played an Arkansas Lottery game.
Trier/Rejecters	Adult Arkansas residents indicating they played an Arkansas Lottery game more than 12 months ago.
Non Players	All adult Arkansas residents indicating they have never played an Arkansas Lottery game.

A note regarding significance testing and its notation throughout this report:

- Significance has been annotated at both the 80% and 95% confidence levels.
- Upper case letters indicate significance at the 95% confidence level while lower case letters indicate significance at the 80% confidence level.

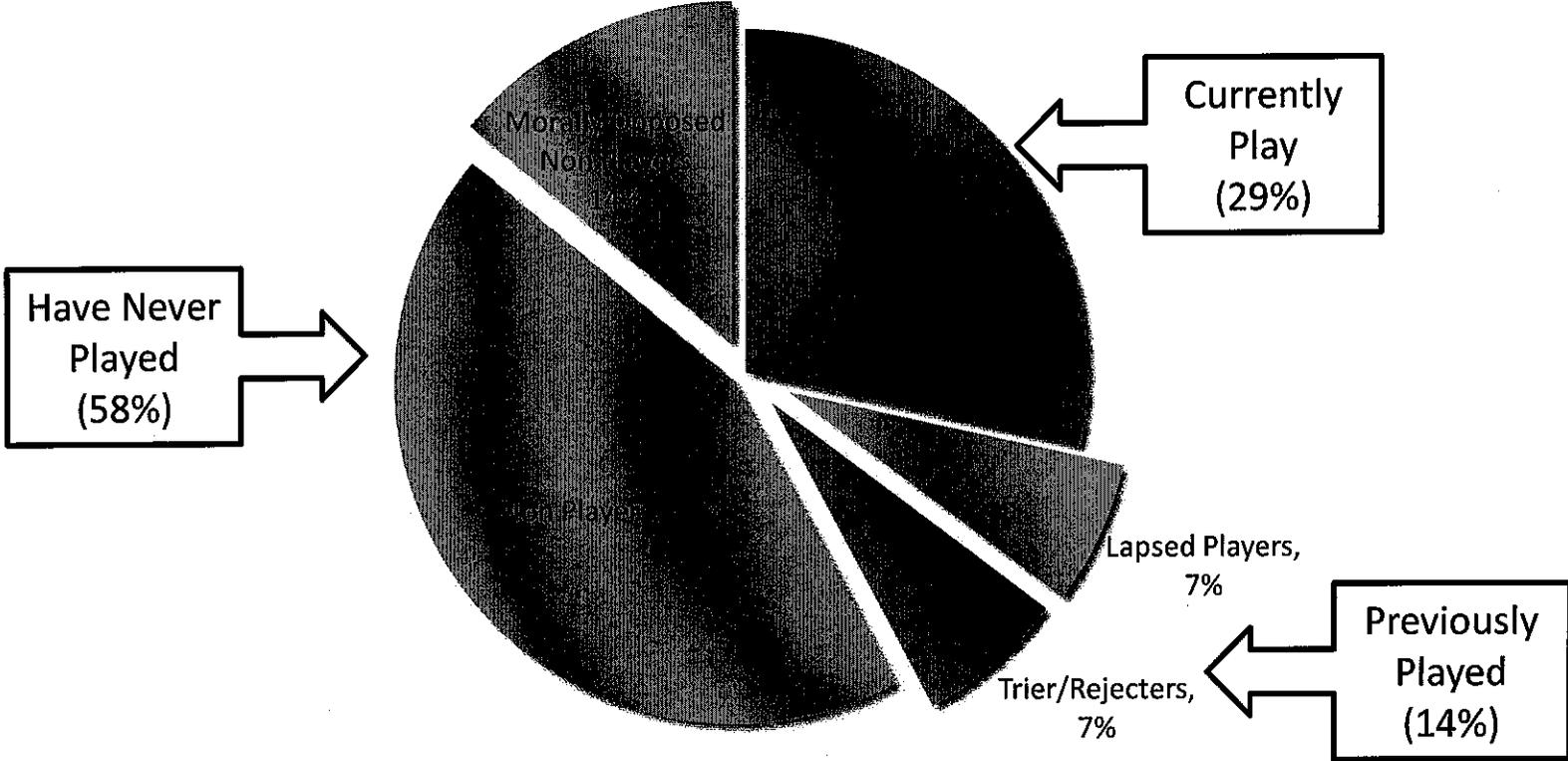


Key Business Dynamics

How many adults are playing the Arkansas Lottery?

Estimated Player and Non Player Incidence

Base = All Participants Screened
(n=1,809)



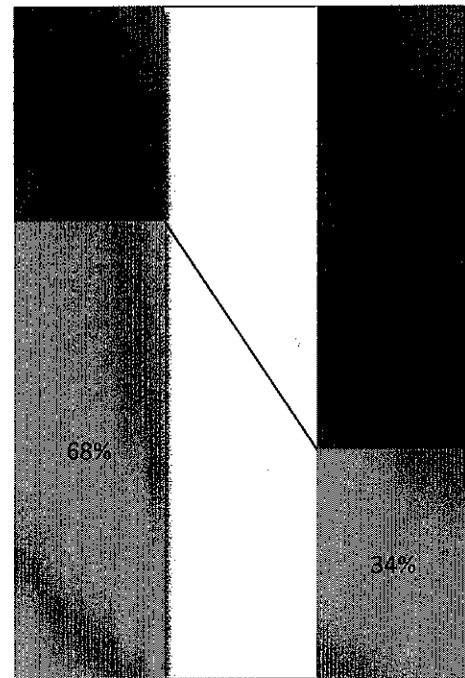
Note: Morally opposed non-players were screened, but not interviewed

Core Players account for most of the stated spending

Estimated Spending Concentration

Base = All Current Players

All Current Players (n=756), Core Players (n=296), Light Players (n=460)



	Percent of Current Players	Percent of Business
■ C. Core Players	32%	66%
■ D. Light Players	68%	34%

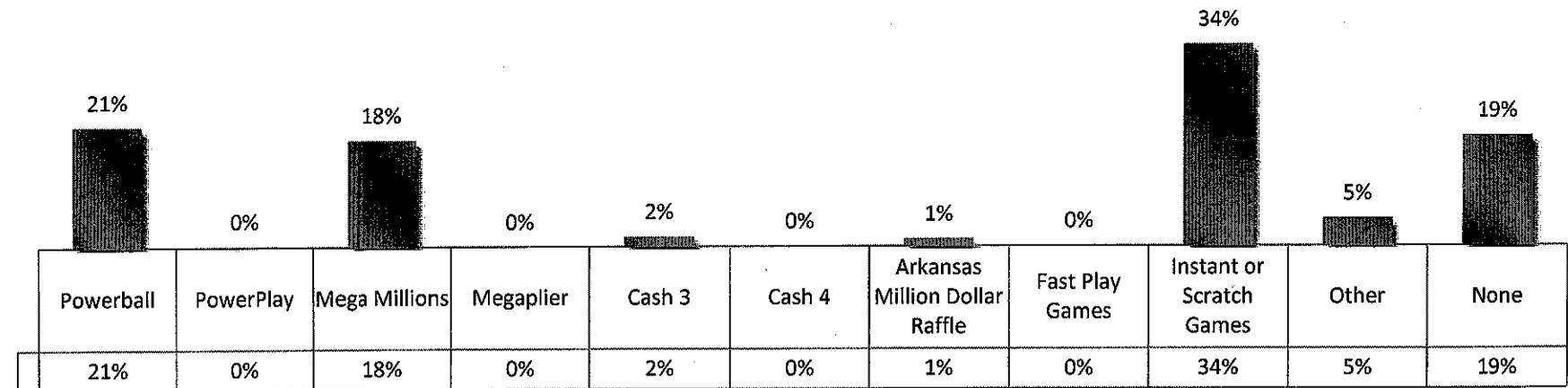
- Spending skews to Core, or weekly players;
 - Core Players represent just 11% of adults, or 32% of the Current Players,
 - And account for 66% of the stated spending.
- Light Players – who play with far less frequently:
 - represent 18% of adults, or 68% of the Current Players,
 - they account for 34% of the stated spending.

Games associated with the Arkansas Lottery

- On a top of mind basis, the Arkansas Lottery is most closely associated with the Instant or Scratch Game Category.
- Powerball and Mega Millions have high top of mind awareness, though Powerball is slightly more identified with the Arkansas Lottery than Mega Millions – particularly among Core and Lapsed Players.

Top of Mind Player Game Awareness

Base = All Players
All Players (n=856)



Q1 When you think of Arkansas Lottery games, which games immediately come to mind?

Identification with the Multi-State games exceeds revenue

- The Powerball and Mega Millions Jackpot Games have 3X greater top-of-mind awareness than spending.
- Combined Jackpot Game top of mind awareness exceeds that of Instant Games, which far accounts for 83% of the reported revenue for 2011 fiscal year.

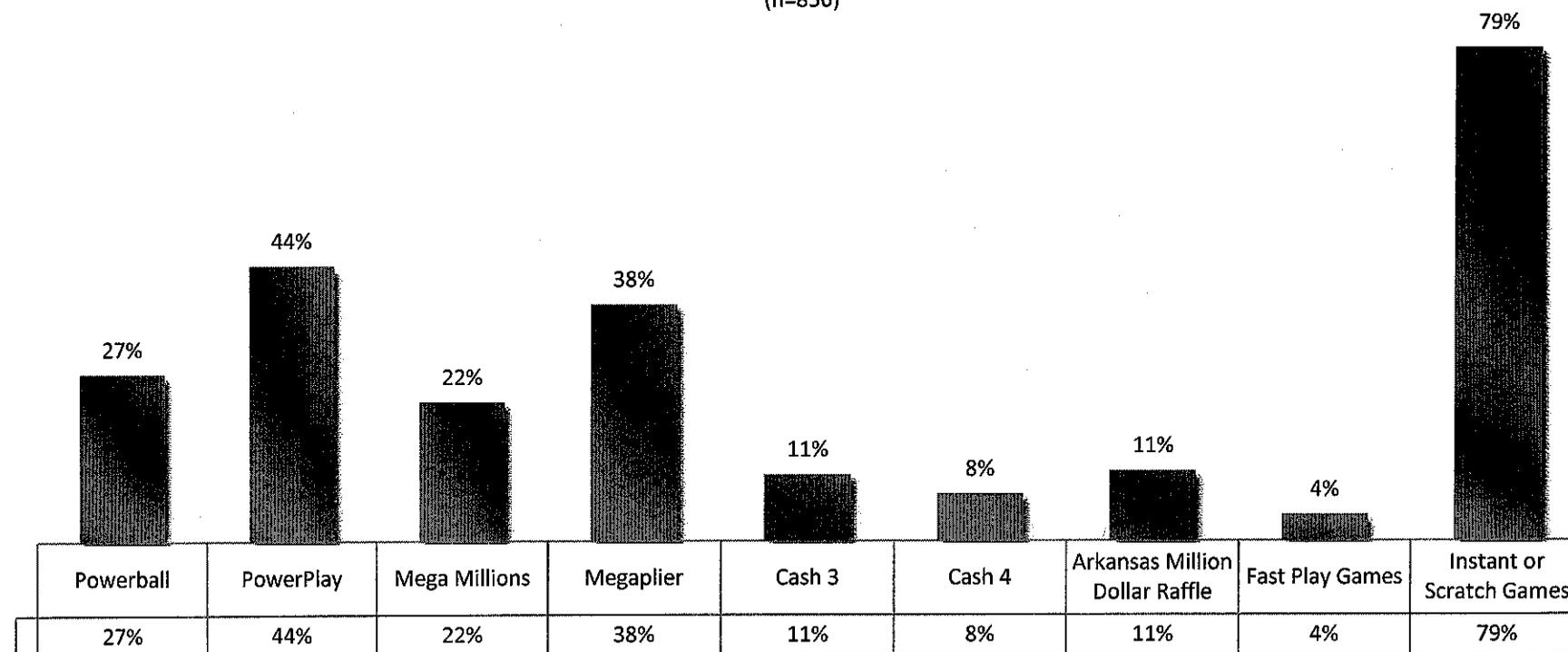
Game Category	Top of Mind Awareness	% of Reported Revenue FY11
Jackpot Games	39%	13%
Raffle	1%	1%
Numbers Games	2%	2%
Fast Play Games	0%	1%
Instant or Scratch Games	34%	83%

Stated Game Playership

- Stated game penetration is highest for Instant or Scratch Off Games – overall, 79% of the players surveyed indicated they had played an Instant or Scratch Game in the past 12 months.
- Powerball and Mega Millions lag Instant or Scratch Games with overall penetration levels of 27% and 22% respectively.
- PowerPlay and Megaplier appear to have established strong identities.

Stated Game Penetration

Base = All Players
(n=856)

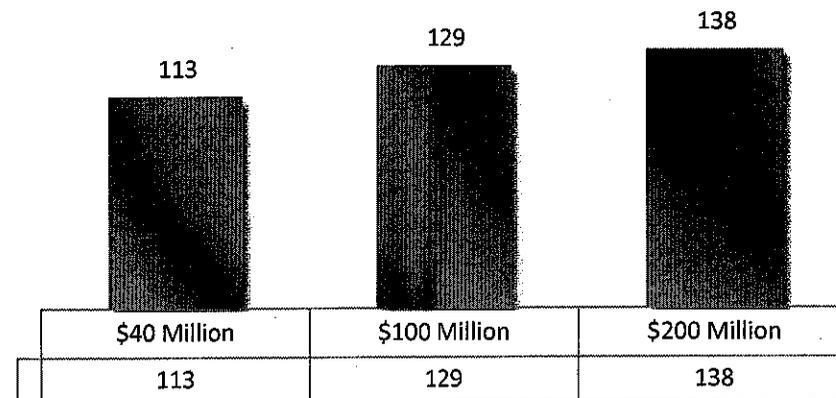


Q3 Which of the following Arkansas Lottery games have you played in the past 12 months?

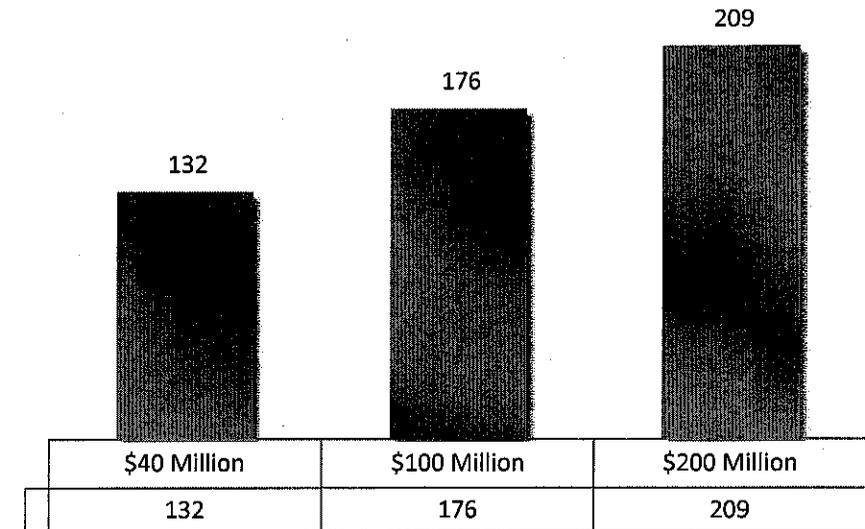
Mega Millions appears to have more jackpot chasing

- More jackpot chasing appears to be occurring with Mega Millions than with Powerball; Mega Millions spending increases steadily as jackpots approach \$200 Million.
- In contrast, spending on the Powerball base game increases at a much slower rate as jackpots increase.

**Spending Index v. Starting \$20M Jackpot:
Powerball without PowerPlay**
Base = All Powerball Players



**Spending Index v. Starting \$12M Jackpot:
Mega Millions without Megaplier**
Base = All Mega Millions Players



Q12/Q13 How much money would you spend on _____ if the _____ jackpot was _____?

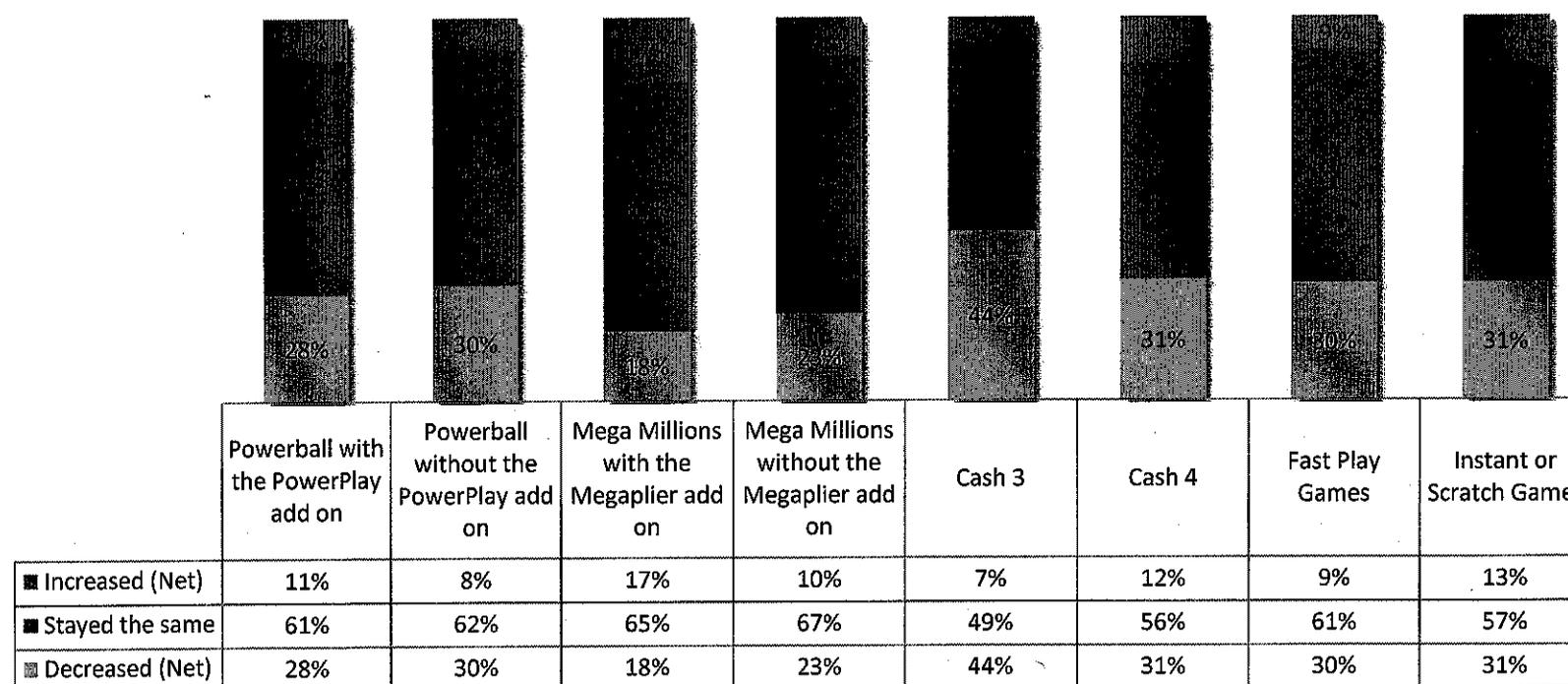
Game play is dynamic

- While many (between 49% and 67%) indicate that their spending has remained approximately the same over the past 12 months – some players (between 18% and 44%) have pulled back their spending.
- Cash 3, Powerball (both with and without PowerPlay) and Fast Play Games have experienced the greatest net spending declines over the past 12 months.
- Reasons for reducing spending generally include, *not winning enough, having less money to spend and/or preferring other forms of gaming* .

Reported Changes in Game Spending

Base = All Players (n=856)

Note: Players of respective games; sample sizes vary



Q7 Please tell us how your spending has changed for each of these games over the past 12 months.



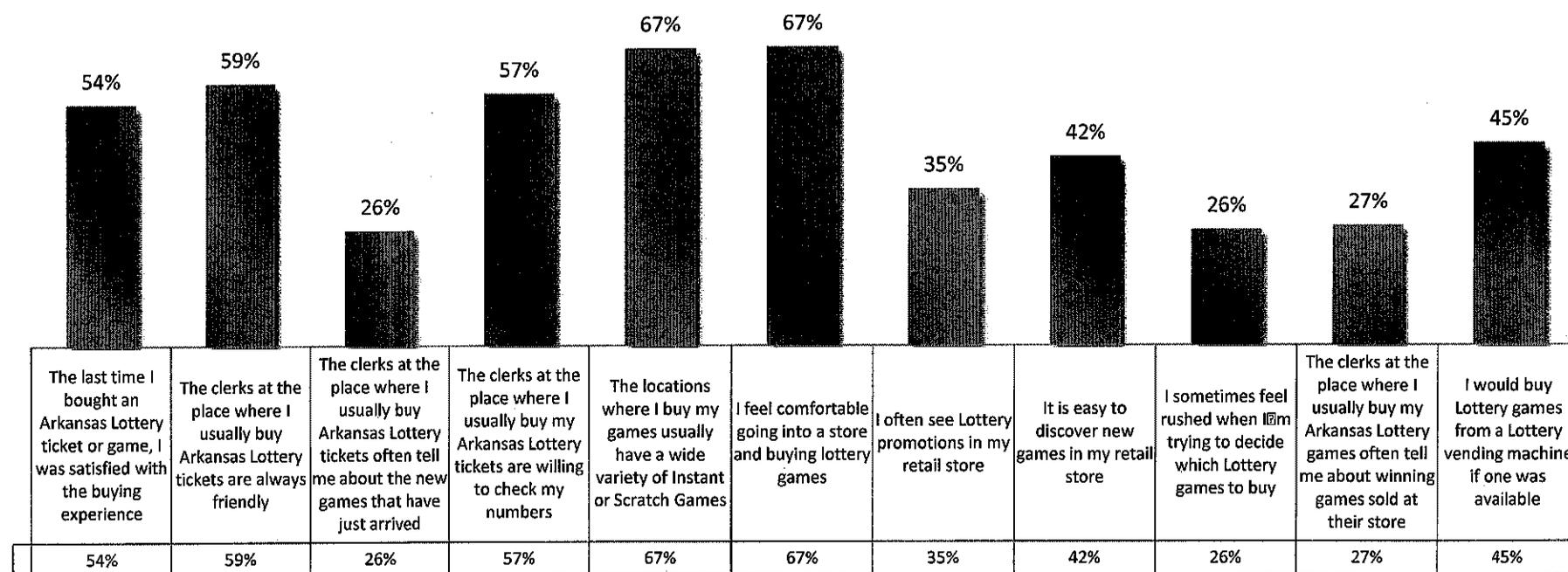
What Do People Think About the Arkansas Lottery?

Most perceive the retail experience to be positive

- Overall, players appear to be satisfied with the act of purchasing these games at retail.
- 35% report *seeing Lottery promotions in their retail store*.
- Retailer involvement, however is low; 26% indicate that *clerks tell them about new games that just arrived* and 27% indicate *retailers tell them about winning games sold at their store*.

The Retail Purchase Experience

Base = All Players, Top-2 Box Summary (6-7 Strongly Agree)
All Players (n=856)



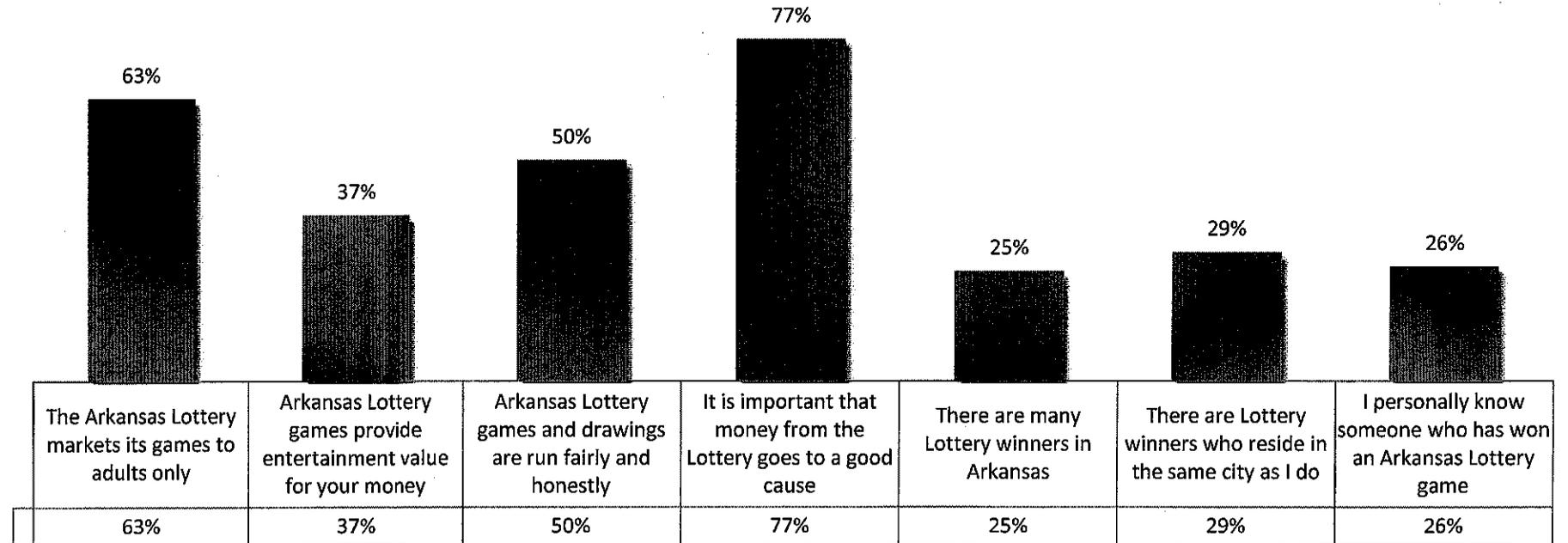
Q21 Please tell me how strongly you disagree or agree with each of the following statements concerning your experiences buying Arkansas Lottery games.

Player Lottery perceptions tend to be positive

- The majority of players agree that *it is important that money from the Lottery goes to a good cause* and that the Lottery *markets its games to adults only*.
- 50% believe the lottery *games and drawings are run fairly and honestly*, and less (37%) see any value.

Player Lottery Perceptions

Base = All Respondents, Top-2 Box Summary (6-7 Strongly Agree)
All Players (n=856)



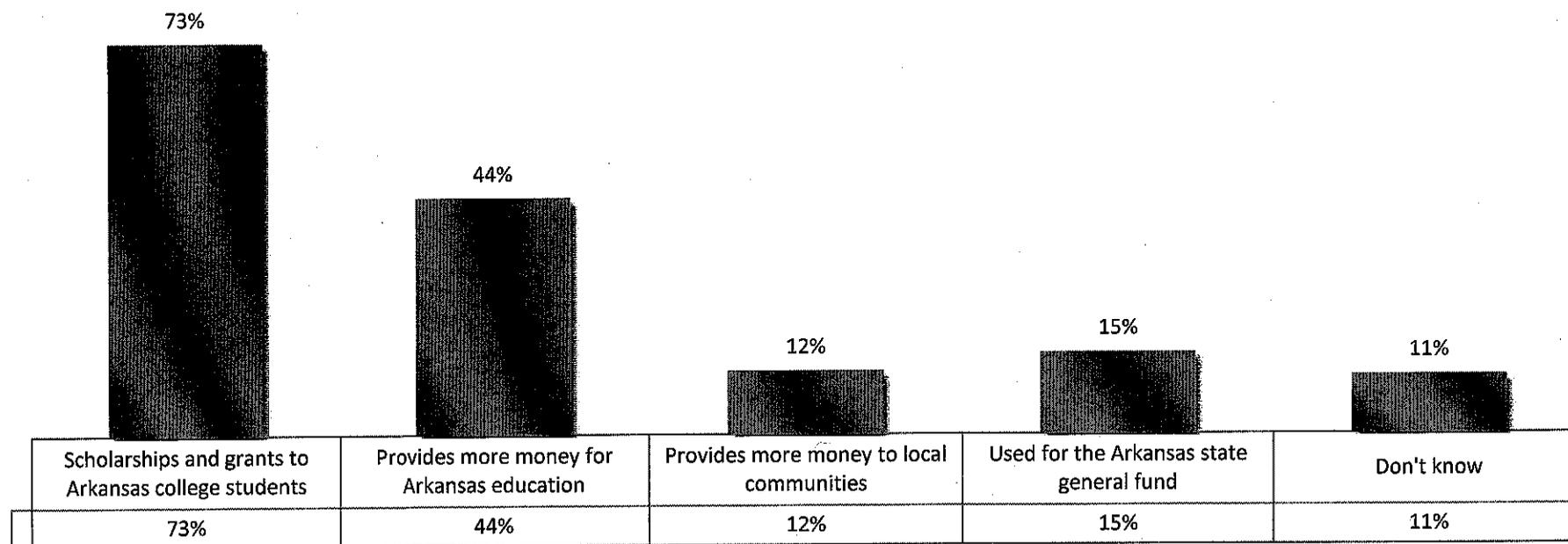
Q25 Please tell us to what extent you agree or disagree with each of the following statements about the Arkansas Lottery.

Players know where the money goes

- Most get the *education message*.
- Nearly three quarters of the players believe that proceeds from the Lottery go to *scholarships and grants*, and 44% indicate that proceeds *provide money for Arkansas education*.

Player Proceeds Perceptions

Base = All Players
(n=856)



Q28 What do you think happens with Lottery proceeds after prizes and expenses are paid?

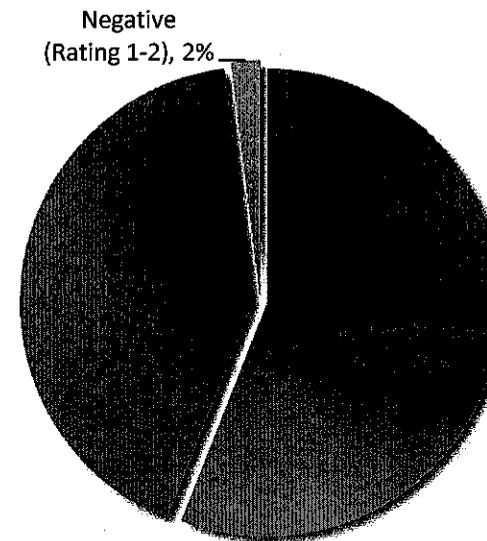
Overall Player Opinion of the Arkansas Lottery

- Overall, 98% of the players surveyed are neutral or positive toward the Arkansas Lottery and 56% have a positive overall impression.
- Current players, as expected, have the most positive overall impressions.
- 37% of Lapsed Players remain positive toward the Lottery, while 54% are neutral.

Overall Player Opinion of the Arkansas Lottery

Base = All Players

All Players (n=856)



Q23 How would you describe your overall opinion of the Arkansas Lottery on a scale of 1 to 7, where 1 means your opinion is extremely negative and 7 means your opinion is extremely positive.

Upper case letters indicate significance at the 95% confidence level
Lower case letters indicate significance at the 80% confidence level

The Arkansas Lottery overall impression ranks well

- The overall impression of the Arkansas Lottery amongst its players is superior to that seen in other jurisdictions.
- The Arkansas Player perception that *Lottery games and drawings are conducted fairly and honestly* is at parity with those seen in other jurisdictions

Jurisdictional Comparison of Player Lottery Perceptions			
	Strongly Disagree (Rating 1-2)	Neutral (Rating 3-5)	Strongly Agree (Rating 6-7)
_____ Lottery games and drawings are conducted fairly and honestly			
All Arkansas Players	7%	43%	50%
Jurisdiction A Players	4%	48%	48%
Jurisdiction B Players	1%	52%	47%
How would you describe your overall opinion of the _____ Lottery on a scale from 1 to 7?			
All Arkansas Players	2%	42%	56%
Jurisdiction A Players	4%	66%	30%
Jurisdiction B Players	3%	60%	37%

Data for the 'Other Jurisdictions' was collected within the past 6 months

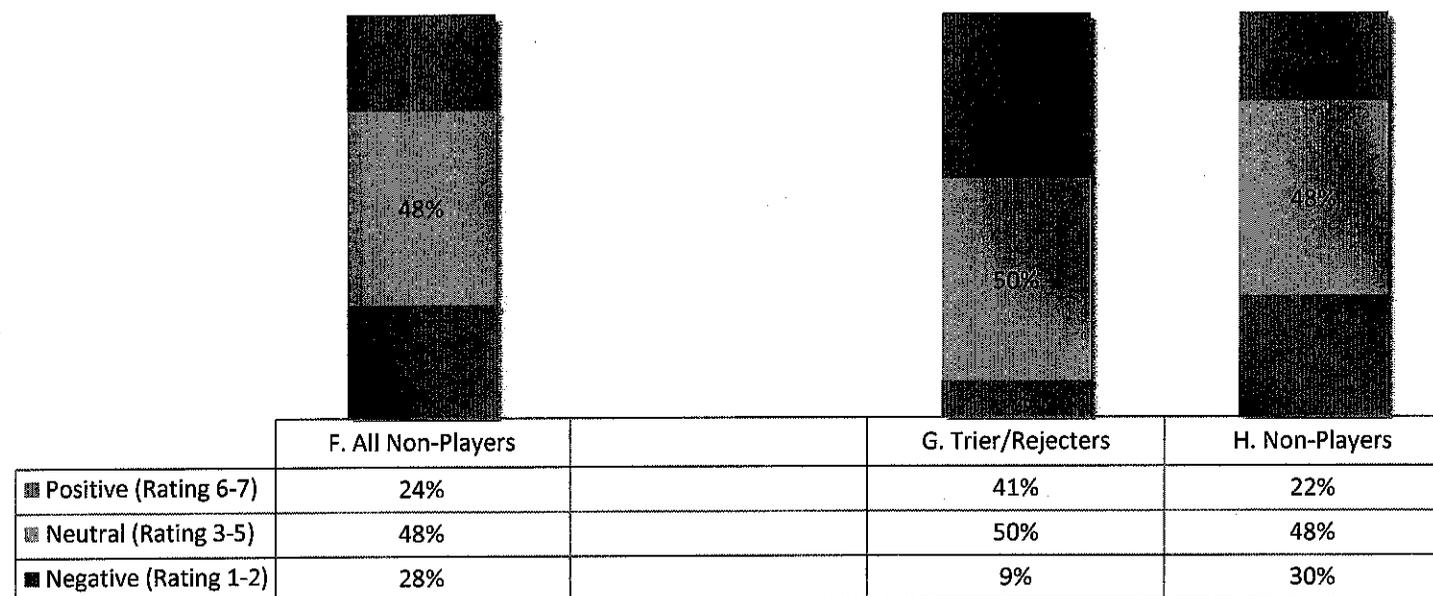
Non Player Overall Lottery Opinion is less positive

- Trier/Rejecters have few qualms with the Lottery; only 9% provided a negative rating and 41% provided positive ratings.
- While Non Players tend to be less positive overall; 48% viewed the Lottery neutrally and 22% of Non Players had a favorable impression

Non Player Overall Opinion of the Arkansas Lottery

Base = All Non Players

All Non Players (n=342), Trier/Rejecters (n=54), Non Players(n=288)



Q23 How would you describe your overall opinion of the Arkansas Lottery on a scale of 1 to 7, where 1 means your opinion is extremely negative and 7 means your opinion is extremely positive.



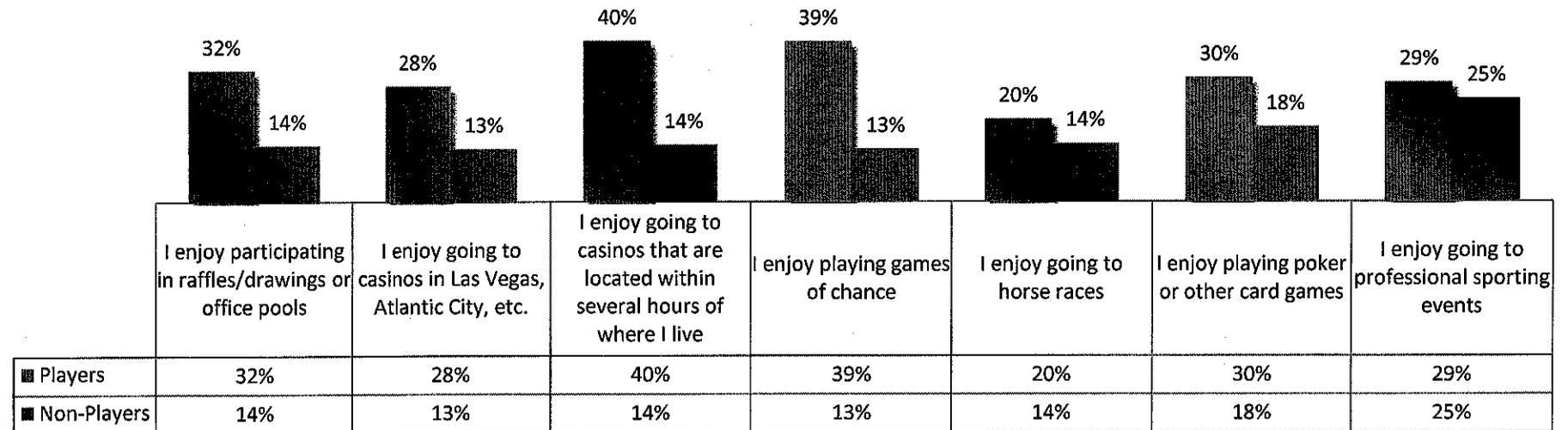
Who Plays the Arkansas Lottery?

Players generally like gaming more than non players

- Overall, 4 in 10 players enjoy *casinos* and *playing games of chance*.
- Professional sporting is enjoyed by 3 in 10 players and 1 in 4 non players.

Player Lifestyles

Base = All Respondents, Top-2 Box Summary (6-7 Strongly Agree)
All Players (n=856); All Non Players (n=342),



Q27 Please tell us to what extent you agree or disagree with each of the following

Lottery Players at a Glance

- 89% of Arkansas Lottery Players are 25 years of age or older.
- 70% of Lottery Players pursued education beyond high school.
- 74% of Lottery Players report annual household incomes of \$25,000 or above.
- 75% of the Current Lottery players are Caucasian:
 - 32% of these Caucasian Current Players are Core Players and 68% are Light Players.
 - Caucasians represent 78% of the Arkansas population and account for 62% of the reported Lottery spending.
- 22% of the Current Lottery players are African American:
 - 36% of these African American Current Players are Core Players and 64% are Light Players.
 - African Americans represent 16% of the Arkansas population and account for 32% of the reported Lottery spending.
- 2008 Median Household Income was \$38,820; estimated Median Household Income obtained in this study was approximately \$37,500.

Demographic Summary

	Number of Respondents (n=)	Census ¹	All Respondents	Lottery Players			Non-Players			
				Players Total	Core	Light	Lapsed	Non-Player Total	Trier / Rejecter	Non-Player
		2.8 Million	1,198	856	296	460	100	342	54	288
Gender	Male	48%	48%	49%	50%	49%	45%	48%	50%	47%
	Female	52%	52%	51%	50%	51%	55%	52%	50%	53%
Age	18-24	13%	13%	11%	8%	13%	7%	14%	6%	15%
	25-34	18%	18%	24%	20%	26%	14%	14%	16%	14%
	35-44	17%	17%	23%	28%	21%	16%	14%	19%	14%
	45-54	18%	18%	19%	19%	19%	25%	18%	23%	18%
	55-64	15%	15%	14%	16%	12%	20%	16%	22%	15%
	65 or older	19%	19%	10%	10%	9%	18%	24%	16%	25%
Education	Some high school		6%	7%	6%	7%	5%	6%	4%	6%
	Completed high school		24%	23%	28%	22%	18%	25%	32%	24%
	Technical or vocational school above high school level		11%	10%	8%	11%	7%	12%	15%	12%
	Some college or university		29%	33%	35%	33%	29%	26%	20%	27%
	College or university degree or diploma (Bachelor's Degree)		19%	19%	17%	20%	21%	19%	17%	20%
Post-graduate degree (Masters, Doctorate, or equivalent)		10%	8%	6%	8%	20%	12%	11%	12%	
Ethnicity	Hispanic, Latino or Spanish origin	95%	95%	94%	97%	93%	92%	95%	90%	95%
	Not of Hispanic, Latino or Spanish origin	5%	5%	6%	3%	7%	8%	5%	10%	5%
Race	Caucasian	78%	80%	75%	73%	76%	81%	83%	80%	83%
	African American	16%	15%	22%	25%	21%	16%	12%	14%	11%
	Native American or Alaska Native	1%	2%	2%	0%	3%	1%	2%	0%	2%
	Asian	1%	1%	0%	1%	0%	1%	2%	3%	1%
	Other (includes Multi – racial, hence may sum to greater than 100%)	4%	3%	3%	1%	3%	3%	3%	3%	3%
HH Income	Less than \$25,000		29%	26%	19%	29%	28%	31%	41%	30%
	\$25,000 to just under \$50,000		34%	37%	45%	34%	29%	32%	20%	33%
	\$50,000 to just under \$75,000		19%	22%	21%	22%	23%	18%	24%	17%
	\$75,000 to just under \$100,000		10%	11%	11%	10%	16%	10%	7%	10%
	\$100,000 or more		7%	4%	4%	4%	4%	9%	8%	9%

S3 [Gender] Are you?

S2 Which of the following categories includes your age?

Q53 What is the highest level of education that you have completed?

Q55 Do you consider yourself to be of Hispanic, Latino or Spanish origin?

Q56 What is your race?

Q54 Which of the following ranges includes your estimated annual household income for 2010?

1 - Source: U.S. Census Bureau, 2005-2009 American Community Survey

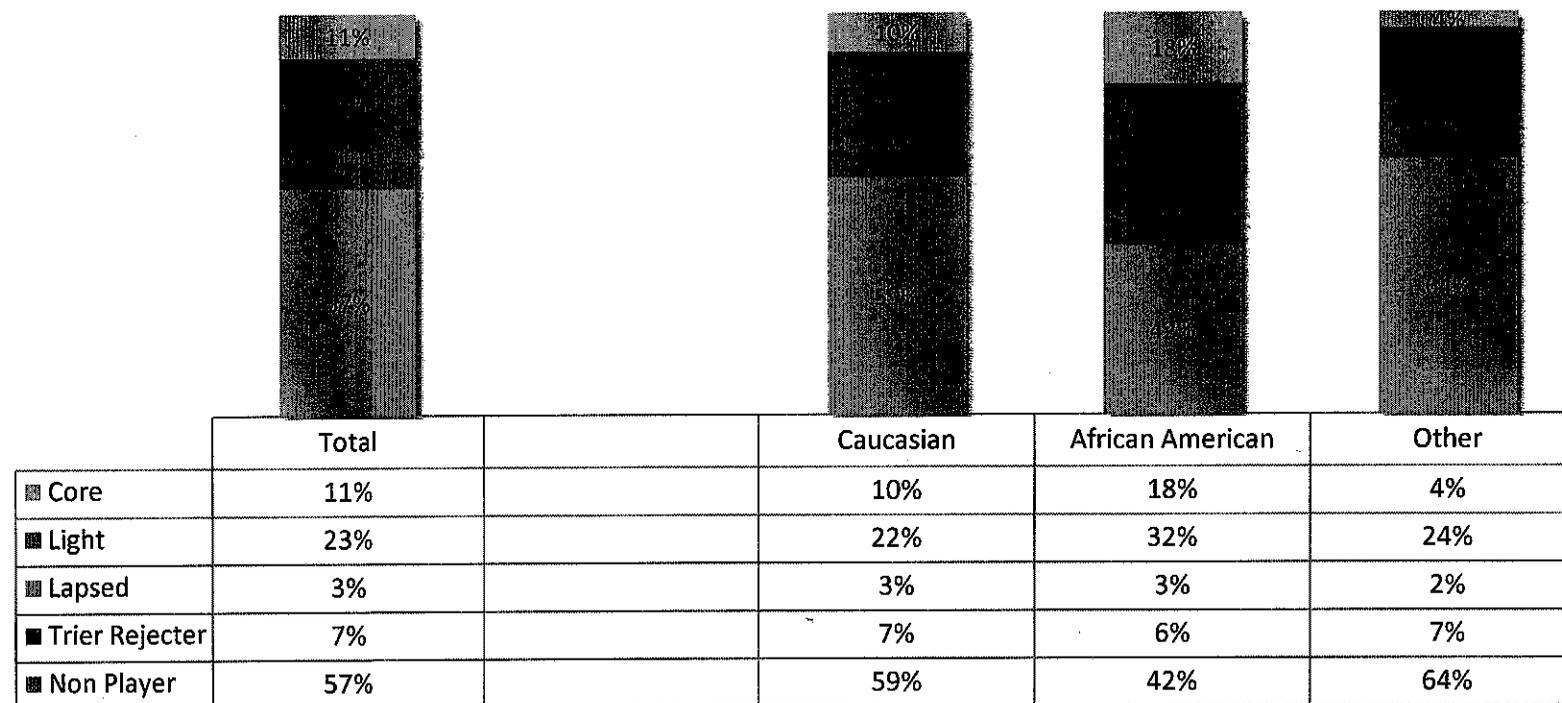
Player Distribution

- The Lottery has proportionately attracted a higher percentage of African American players; roughly half have played in the past six months.
- Roughly one third of both Caucasian and African American players are Core Players.

Player Profile by Race

Base = All Respondents Surveyed

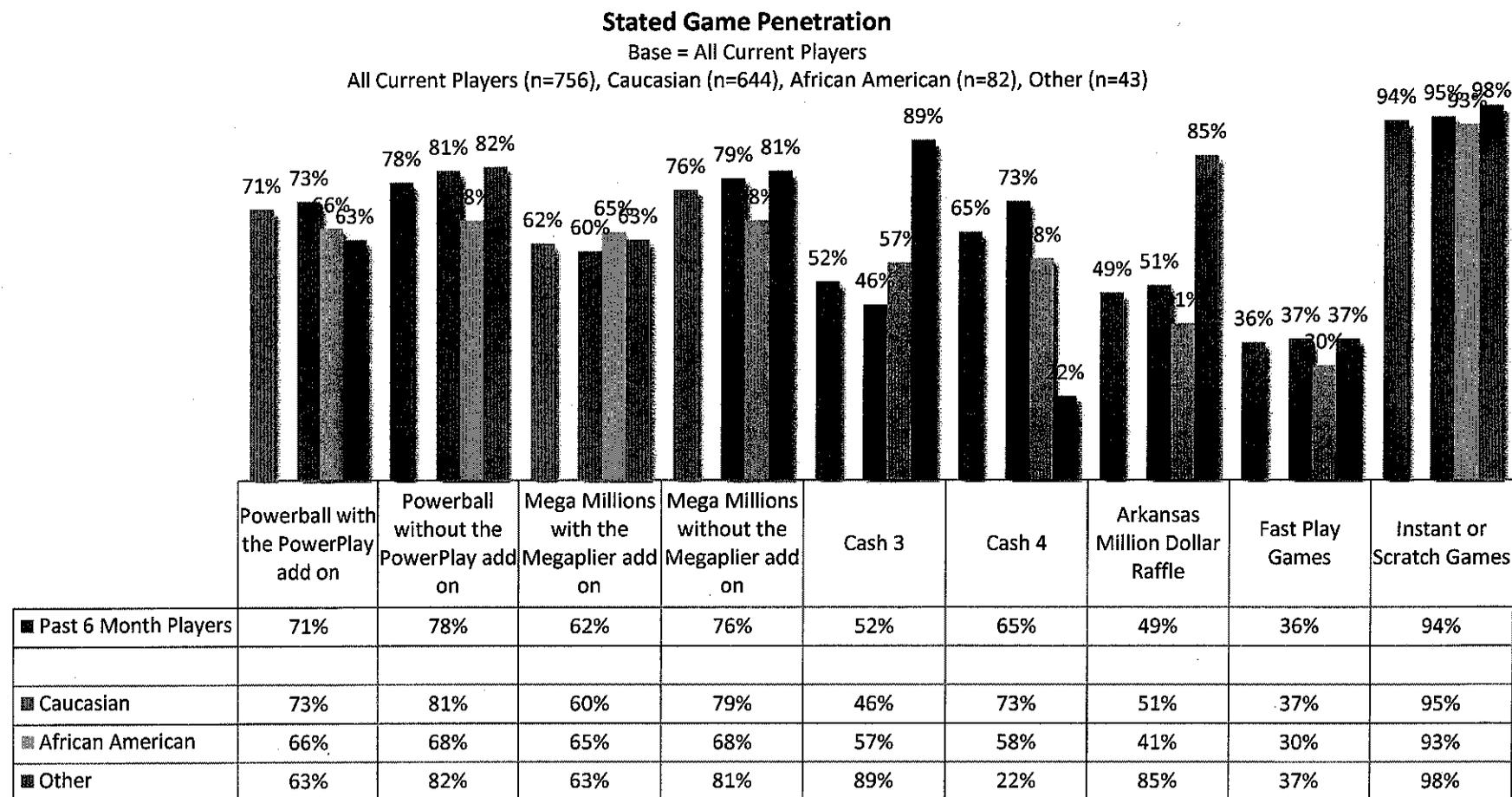
All Respondents (n=1,198), Caucasian (n=960), African American Players (n=185), Other Players (n=72)



Note: Does not include Morally Opposed

Stated Game Penetration by Race

- Most games have similar penetration rates across all racial groups.
- Cash 3 appears to be played more by non Caucasian players.



Q3 Which of the following Arkansas Lottery games have you played in the past 12 months?
Q56 What is your race?

Estimated Average Annual Game Purchases

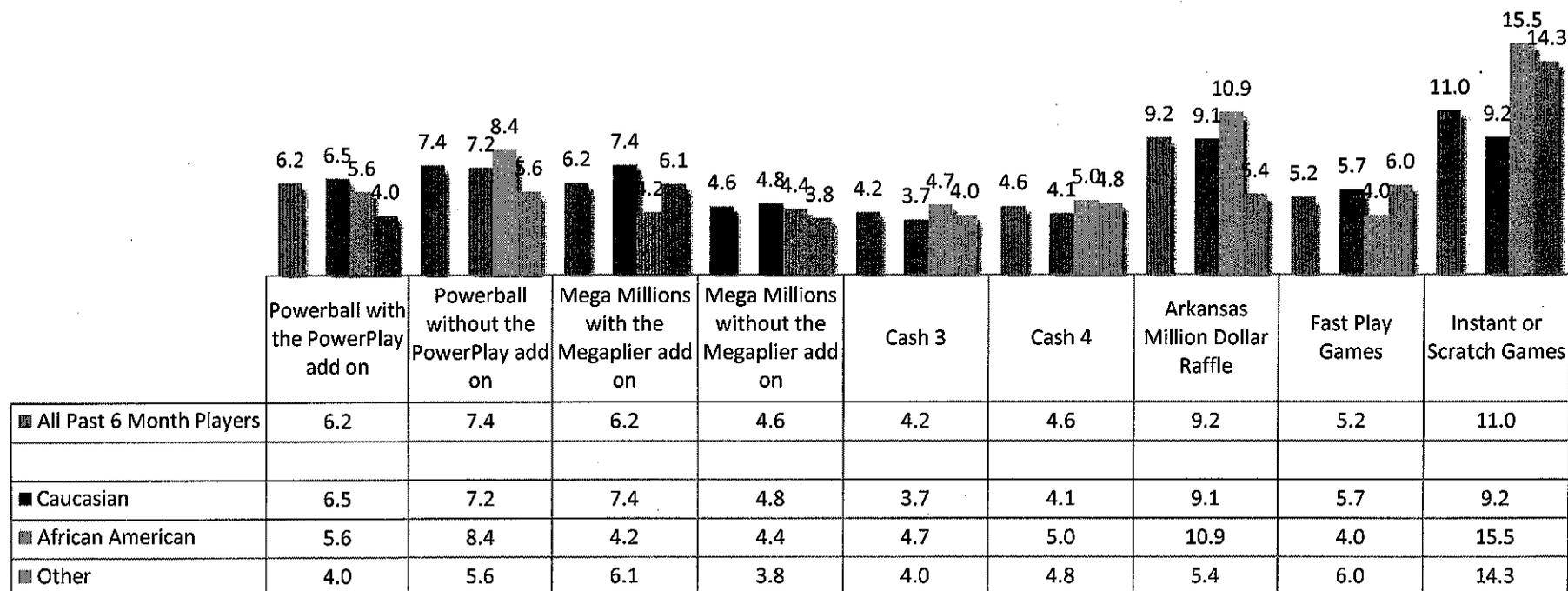
- Among players of the different games, Instants have the greatest purchase frequency. It also appears that the Raffle game was well embraced by those who played.
- Play frequency tends to move in tandem amongst the various racial groups the key difference being higher purchase frequency for Instants among African Americans and non Caucasians.

Estimated Average Annual Game Purchases

Base = All Current Players

All Current Players (n=756), Caucasian (n=644), African American (n=82), Other (n=43)

Note: Players of respective games; sample sizes vary



Q5.X Please tell us how often you have played each of the following Arkansas Lottery games over the past 12 months.



How Can the Arkansas Lottery be Improved?

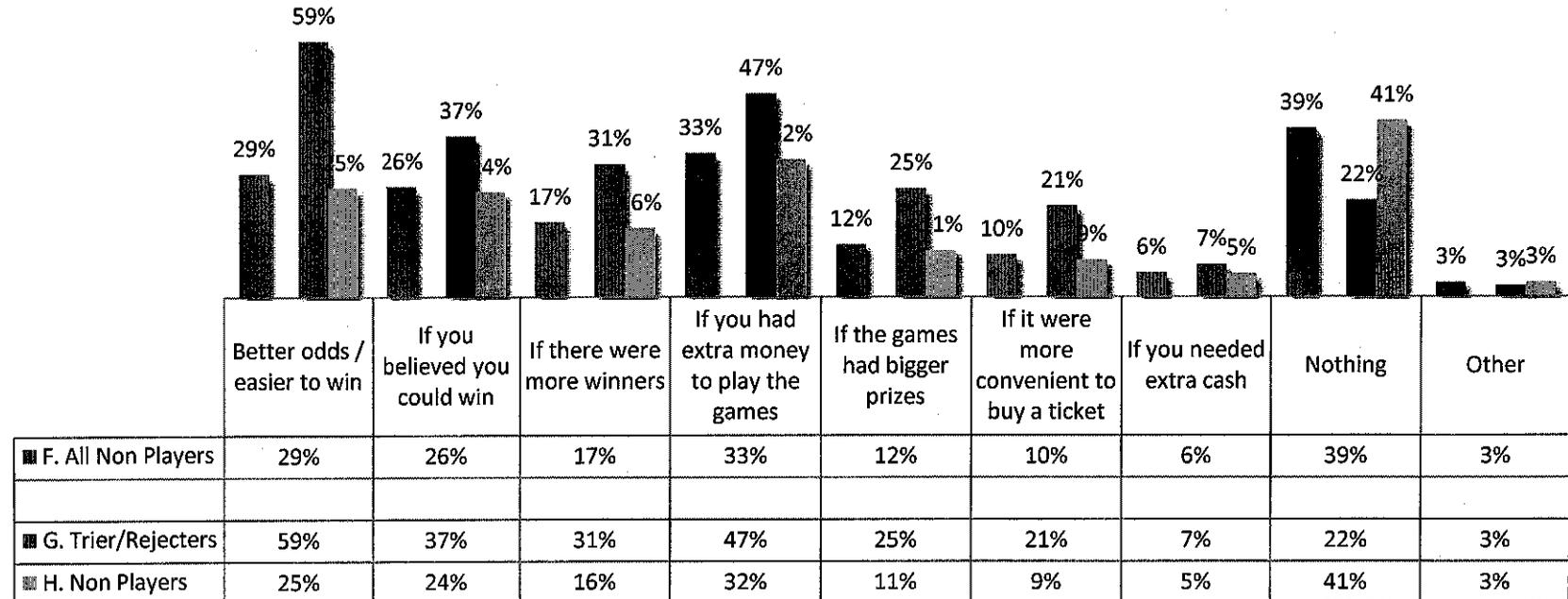
Some non players could be enticed with odds

- 39% of the non players surveyed indicated there is *nothing that can be done* that would make them more likely to play an Arkansas Lottery game.
- *Better odds/easier to win* was the number one requirement identified by 59% of the Trier/Rejecters.
- Approximately one third of the Trier/Rejecters identified *if [they] believed they could win and if there were more winners*, implying that winner awareness is an issue for these former players.

Opportunities for Non Player Participation

Base = All Non Players

All Non Players (n=331), Trier/Rejecters (n=48), Non Players (n=283)



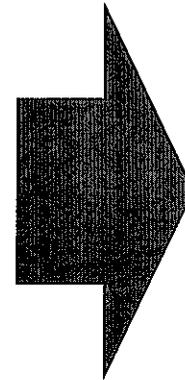
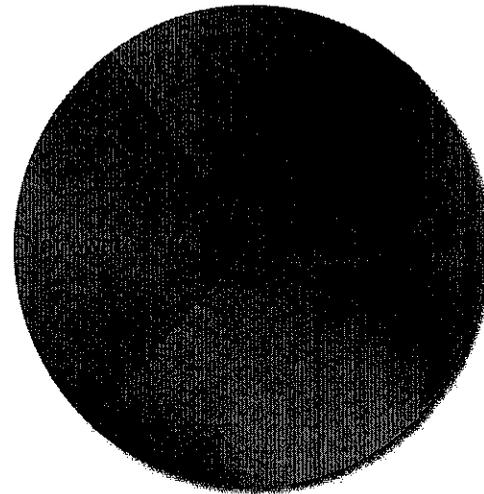
Q51 Which, if any, of the following factors would make you more likely to play Arkansas Lottery games?

Players perceive Lottery advertising to be informative

- Lottery advertising appears to be effective.
- Overall, 72% of the players surveyed recall being exposed to Lottery advertising.
- Approximately one third indicate that the advertising *reminds them to play*, that the *ads are informative* and that they rely on the ads to *find out about new games and promotions*.

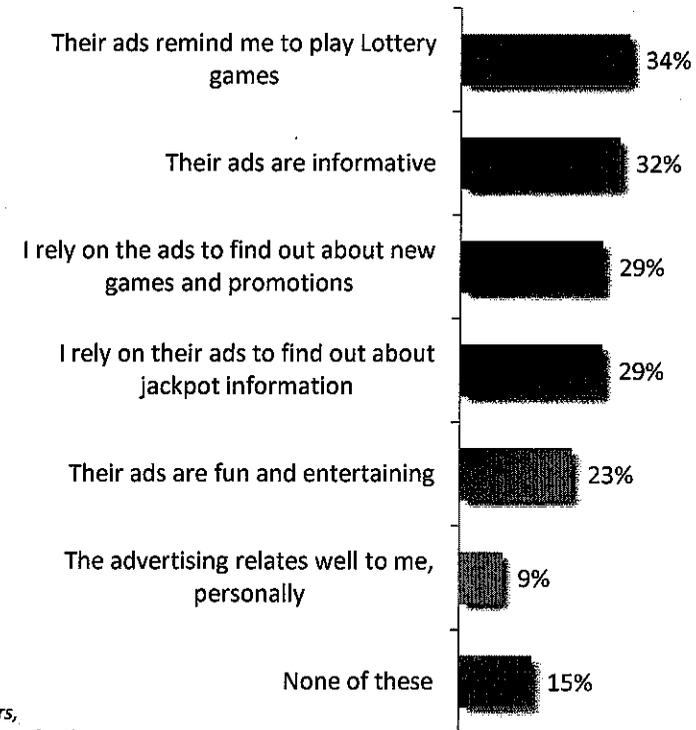
Player Advertising Awareness

Base = All Players (n=856)



Player Advertising Perceptions

Base = Players, Aware of Lottery Advertisements (n=606)



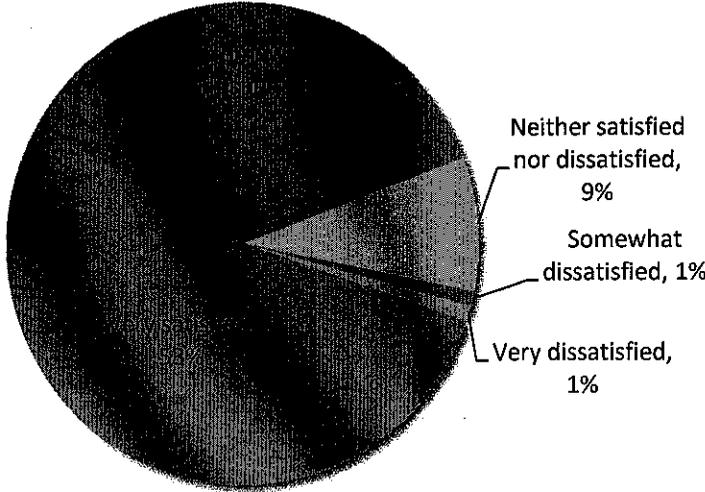
Q29 Thinking about all of the different advertising mediums, like television, radio, newspapers, magazines, billboards, and the Internet do you recall reading, seeing or hearing any advertising for the Arkansas Lottery within the past six months?

Q30 Which of the following statements pertaining to the Lottery advertisements you recall reading, seeing, or hearing do you agree with?

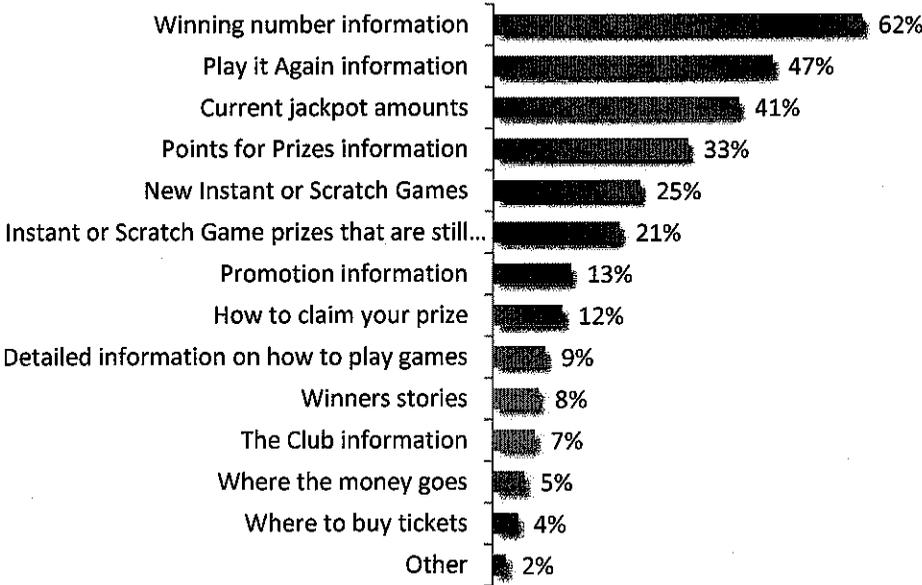
The Lottery Website

- Overall, 74% of the players surveyed are aware that the Arkansas Lottery has a website; players indicate visiting, on average, 23 times over the past 12 months and weekly by Core Players.
- Players are most satisfied overall – 53% are very satisfied, with higher scores among core players.
- Primary reasons for visiting the website include for *winning number information* followed by *jackpot amounts* and the Lottery programs – *Play it Again* and *Points for Prizes*.

Player Satisfaction with Website Visit
Base = All Past 12 Months Players Who Visited Website
All Players (n=522)



Player Reasons for Visiting Lottery Website
Base = All Past 12 Months Players Who Visited Website
All Players (n=522)



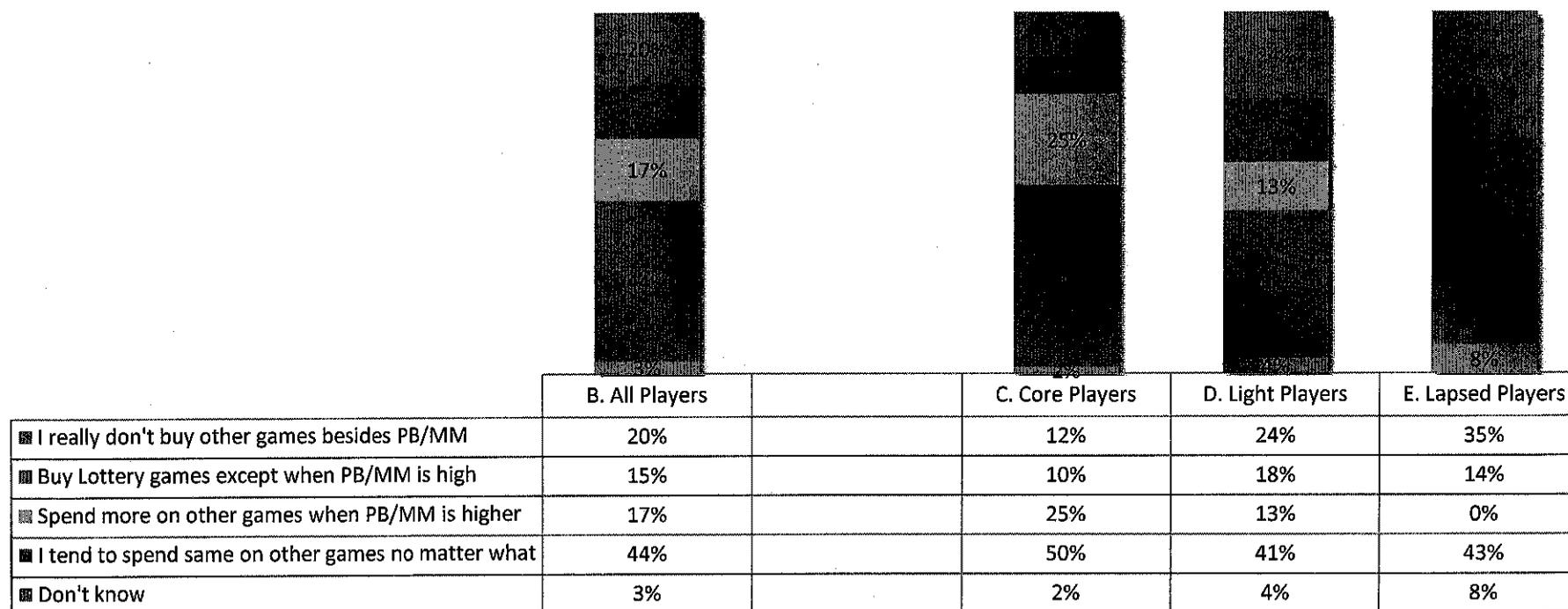
High multi-state game jackpots can be leveraged

- 61% of Powerball and Mega Millions players purchase other Lottery games when jackpots are high.
- Only 20% of the Powerball and Mega Millions Players surveyed indicate they play the multi-state games exclusively.

Influence of Large Jackpots on Game Purchasing

Base = Mega Millions and Powerball Players

All Players (n=573), Core Players (n=255), Light Players (n=281), Lapsed Players (n=37)



Q16 Which of the following best describes your purchasing of other Lottery games when the Powerball and/or Mega Millions jackpots are higher?

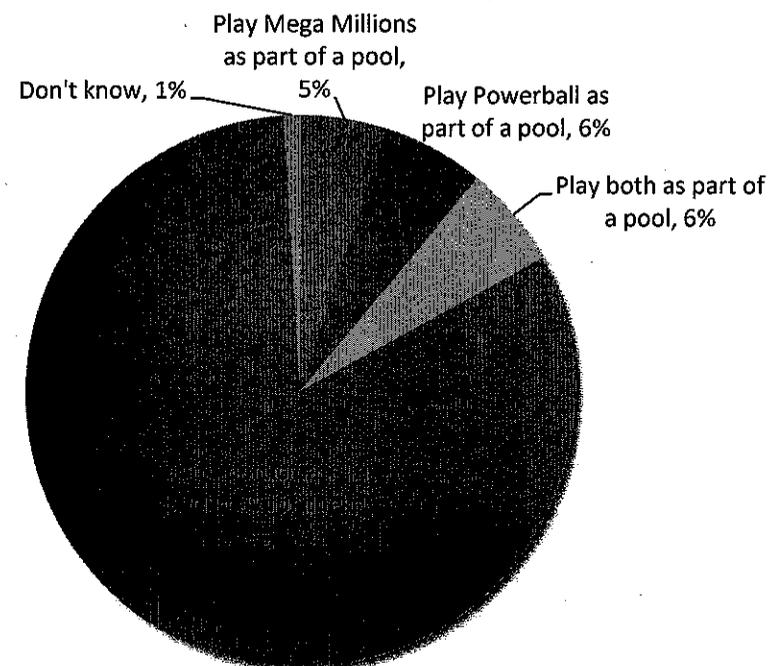
Multi-State game pool participation is low

- Most (82%) of the Mega Millions and Powerball players surveyed do not participate in player pools.
- Roughly half of those who play for each game play both games with pools.

Multi State Game Pool Play Participation

Base = Play Mega Millions or Powerball

All Players (n=571)

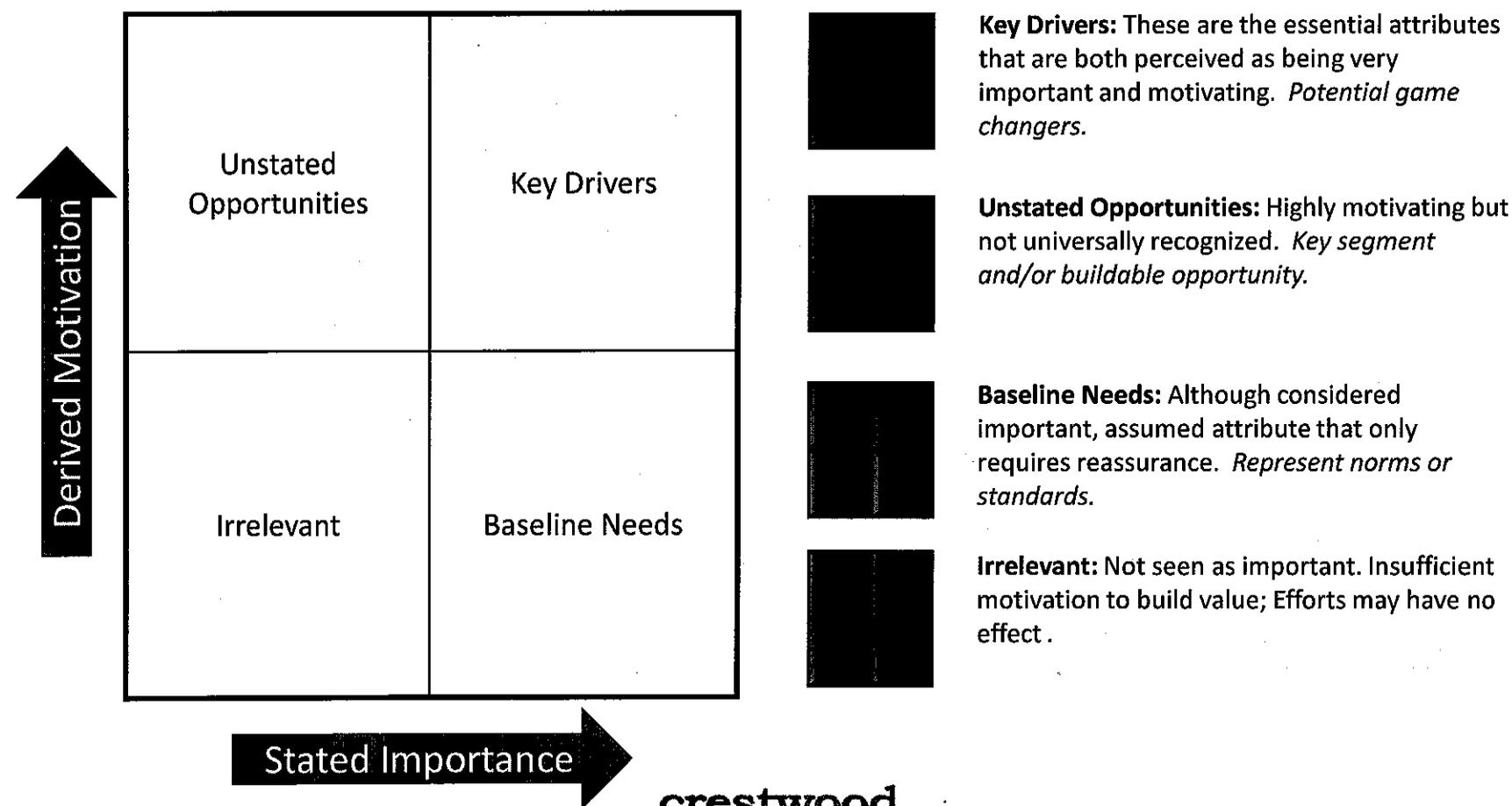


Q17 Do you ever purchase Mega Millions or Powerball tickets as part of a group or pool of players?

Interpreting Positioning Grids

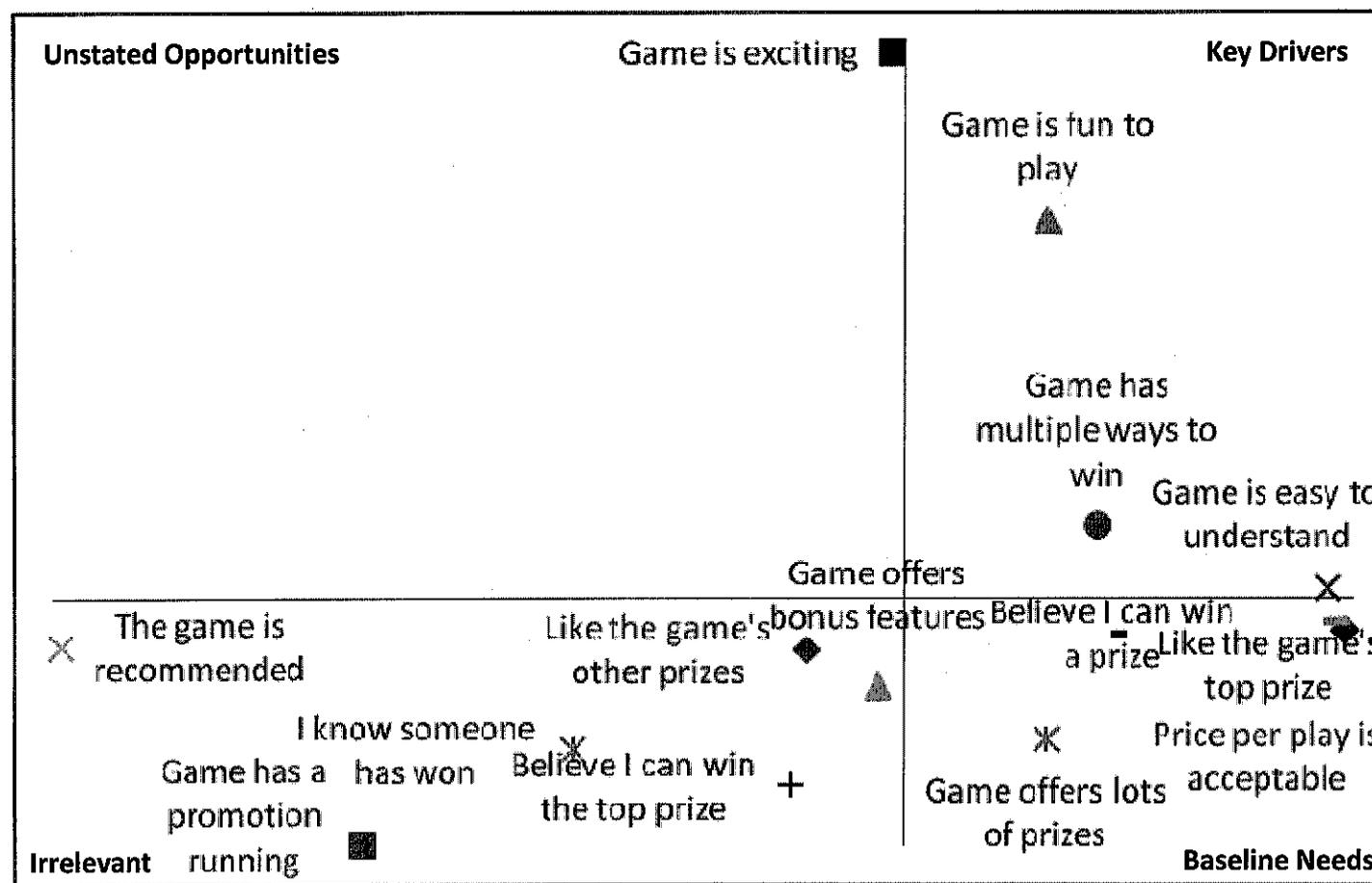
Positioning Grids have been developed to help plot the Lottery's communications and messaging strategy.

The importance attributes reviewed were statistically linked to a respondent having an *extremely positive* overall impression of the Arkansas Lottery to arrive at a derived motivation score. The motivational impact was plotted in relation to the stated importance of each of the importance attributes to highlight those attributes that could be used to best position the Lottery with Core, Light, and Lapsed Players as well as with the Trier/Rejecters. The plots, seen on the following pages may be interpreted as follows:



Positioning Lottery Games with Players

- Games are *fun to play*, *have multiple ways to win*, and *are easy to understand* are all perceived as being very important to players and are highly motivating to a player having a positive overall impression of the Lottery.
- Games *are exciting*, while highly motivating, is embraced by only a portion of players.



Winner awareness should help build sales

	All Players	Core Players	Light Players	Lapsed Players	Trier/ Rejecters
Price per play is acceptable					
Game is exciting					
Game is fun to play					
Game is easy to understand					
Game offers lots of prizes					
Game has multiple ways to win					
Believe I can win the top prize					
Believe I can win a prize					
Like the game's top prize					
Like the game's other prizes					
Game has a promotion running					
Game offers bonus features					
The game is recommended					
I know someone has won					

Key:

Key Drivers	
Unstated Opportunities	
Baseline Needs	
Irrelevant	

Opportunities

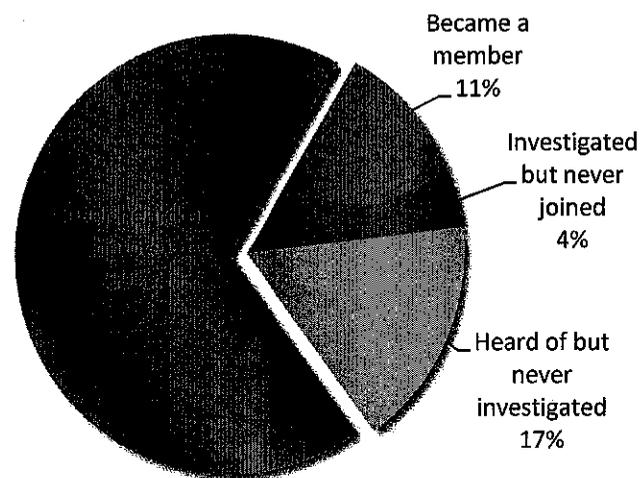
ALL	<i>Fun, winnability and ease of play</i>
Core Players	<i>Low cost, prizes and exciting</i>
Light Players	<i>Exciting (needs translation to more universal) and top prizes</i>
Prior Players	<i>Winnability (odds) and exciting</i>

“The Club” awareness is low and moderately perceived

- Fewer than one third of players are aware of the club.
- Among the 31% aware of the club, less than half have been compelled to even investigate.
- Overall perception of the club is neutral or better.

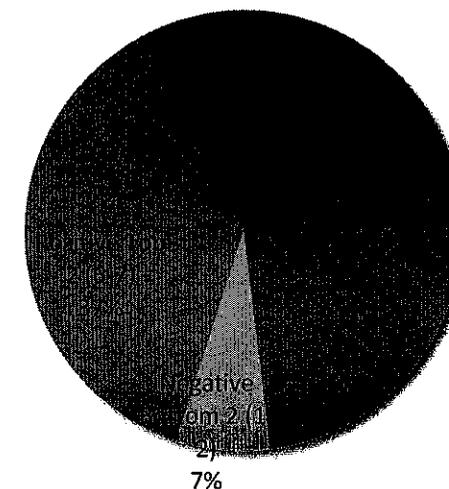
Player Familiarity with “The Club”

Base = All Players
All Players (n=856)



Overall Opinion of The Club

Base = All Players Aware of “The Club”
All Players (n=267)



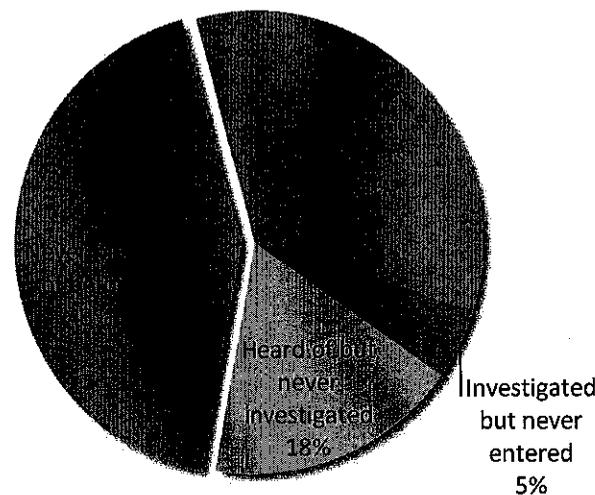
Q37 What interaction have you had with “The Club” from the Arkansas Lottery?
Q38 Do you know of anyone who is a member?

Play it Again interaction is very concentrated

- Over half of players have heard of “Play it Again.”
- Of those aware, over half (one third of all players) have entered tickets.
- Aware players believe that they have entered roughly half of their tickets; this translates to a high percentage among those who have entered tickets in the past.

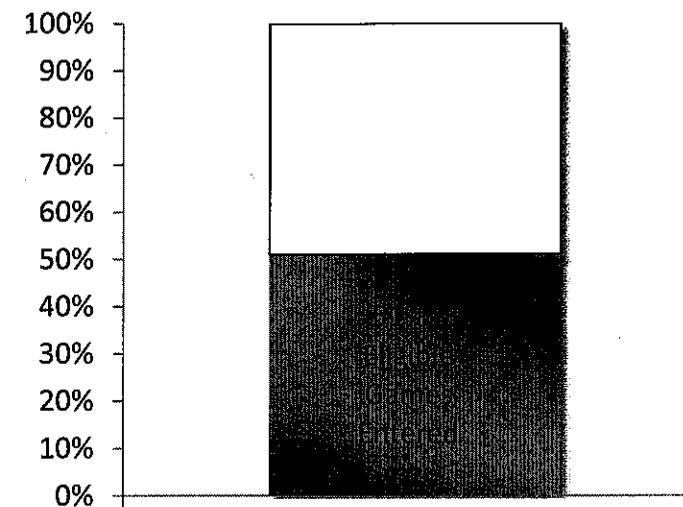
Interaction with Play it Again

Base = All Players
All Players (n=856)



Eligible Games Entered in Play it Again

Base = All Players Aware of “Play it Again”
All Players (n=477)



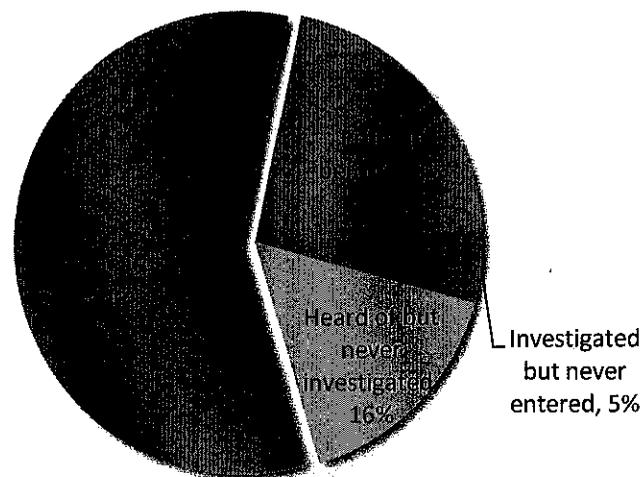
Q41 What interaction have you had with Play it Again from the Arkansas Lottery?
Q44 Approximately what % of all eligible games that you purchase do you enter in Play it Again?

Points for Prizes interaction is also very concentrated

- Only 4 in 10 players were aware of the Points for Prizes program.
- Of those aware, half have entered games.
- Aware players believe that they have entered roughly half of their tickets; this translates to a high percentage among those who have entered tickets in the past.

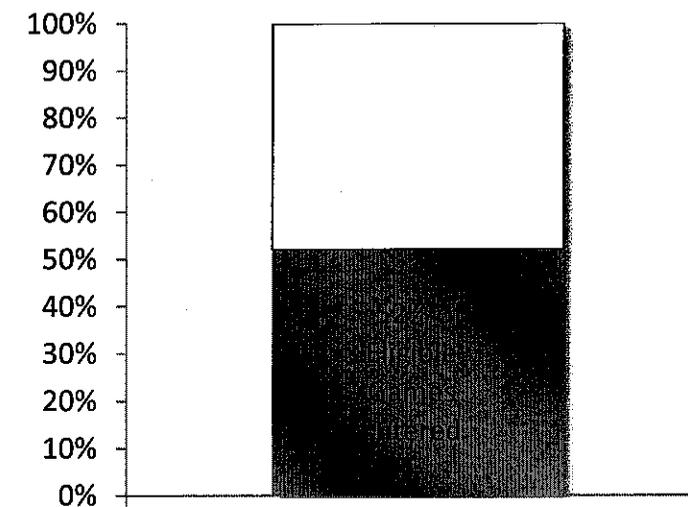
Interaction with Points for Prizes

Base = All Players
(n=856)



Eligible Games Entered in Points for Prizes

Base = All Players Aware of "Points for Prizes"
(n=350)



Q46 What interaction have you had with Points for Prizes from the Arkansas Lottery?

Q49 Approximately what % of all eligible games that you purchase do you enter in Points for Prizes?



Where Do We Go From Here?

Key Conclusions and Recommendations

- Given its short tenure, the Arkansas Lottery appears to be a fairly vibrant lottery with generally positive prospects:
 - 43% of adult Arkansas residents have played at least one game since operations commenced in late 2009 and 29% are *Current Players* who have played in the past 6 months.
 - The player perception that *Lottery games and drawings are conducted fairly and honestly* is at parity with those seen in other jurisdictions while the *overall impression of the Arkansas Lottery* amongst its players is higher.
 - Advertising is being noticed and the web site delivers.
 - Non players tend to be more neutral than negative when asked their overall impression.
- On a top of mind basis the Arkansas Lottery brand is primarily associated with Instant or Scratch Games, and secondarily with the multi state jackpot games (e.g. Powerball and Mega Millions).
 - Instant Game penetration far exceeds all other Arkansas Lottery games.
 - Powerball and Mega Millions both display potential for growth.
- It appears that the Arkansas Lottery is establishing a foothold.
 - While overall perceptions are positive, player engagement the Lottery is developing.
 - Game awareness has room for growth amongst Core (or weekly) Players.
- Arkansas Lottery games are currently in competition with other forms of gaming; many players who reduced their Lottery spending indicated they were spending more on other types of gaming.

Key Conclusions and Recommendations (continued...)

- Lottery perceptions are generally positive and evolution will further monetize players.
 - Games being *fun to play*, *having multiple ways to win*, and being *easy to understand* are highly motivating to all player groups.
 - Further building the perceptions of *excitement* and *winnability* should increase the Lottery's appeal and purchasing.
- Large Powerball and Mega Millions jackpots can be leveraged to the Lottery's benefit.
 - Large jackpots tend to be exciting, a key leverageable attribute.
 - Spending on these games increases dramatically among players as jackpots reach \$100 Million.
 - Nearly two thirds of the Powerball and Mega Millions players surveyed indicate they buy other Lottery games along with their multi state tickets when jackpots get high.
- Awareness and perceptions of new marketing programs is developing.
 - Familiarity with *The Club* and *Points for Prizes* is low while approximately half of the players surveyed were familiar with *Play It Again*.
 - Engagement appears high among those participating.
- Further integrating the Lottery into the Arkansas landscape should yield great returns.
 - There is little opposition to the Lottery.
 - Purchase frequency can be built and cross game usage is also expandable.
 - Scratch play price acceptable price points appear to be increasing.
 - Establishing greater winner awareness, including at retail, will support developing a "lottery culture."
- Converting non players will be a significant challenge for the Lottery.
 - Their psychographics are different.
 - Many lack the inclination to play.
 - Re-engaging with Trier/Rejecters may be an easier path to monetizing non players.



Thank You!



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POLICY TITLE: Hiring Policy: Arkansas Lottery Commission, Human Resources Division
CATEGORY: Operating Procedures: Employment
DATE OF ISSUANCE:
ACCOUNTABILITY: Department of Administration, Arkansas Lottery Commission: Questions on the content should be directed to ALC's Human Resources Director.

PURPOSE

The purpose of this policy is to establish rules and guidelines for authorized positions, set salaries and entry rates for hiring in accordance with §23-115-305 of the Arkansas Scholarship Lottery Act and closely align these with the recommendations and procedures of the Office of Personnel Management, Department of Finance and Administration.

SCOPE

The scope of this policy covers the ALC statutory requirement for positions and general compensation. The policy applies to all new hires and current ALC employees.

PROCEDURE:

Section 23-115-305 of the Arkansas Scholarship Lottery Act established for the ALC regular employees, the grades to be assigned to the respective positions, and the maximum annual salaries for each such position.

- A. In instances where there is difficulty in recruiting qualified applicants at the base level of a specific classification and there is significant turnover in the classification, the ALC may request the Personnel Committee and full Commission to review ALC's hiring of an employee at a special rate of pay up to and including the maximum pay level of the appropriate grade for a specific classification due to prevailing market rates of pay.**
- B. Labor market rates may be applied based on the following conditions:**
- 1. Prevailing market rates of pay for a specific classification title are such that the ALC is unable to competitively recruit at the base pay level for the grade assigned to that classification; or**
 - 2. An acute shortage of qualified applicants for a specific classification exists; or**
 - 3. ALC desires to obtain the services of an exceptionally well-qualified applicant for a specific position; or there is a need for a specific skill or level of expertise; or**
 - 4. To meet any requirements of the Fair Labor Standards Act.**
- C. If a special rate of pay has been applied to a specific classification due to prevailing market rates of pay or an acute shortage of qualified applicants, current employees within the ALC assigned to the affected classification may be adjusted to the new applied rate of pay by the ALC upon review by the Personnel Committee and full Commission. The labor market rate of pay provision applies to both prospective and current state employees.**

Cost of Living Adjustment

ALC will grant all employees, excluding extra help, a cost of living (COLA) adjustment as directed by the Governor and at the same rate as set by the Governor or his designee.

The COLA adjustment will be based on the employee's base pay rate. Employees who are at or above the maximum rate of pay for their classification but do not have at least fifteen (15) years of service, will receive their COLA in the form of a lump sum at the end of the fiscal year. Those employees who are at the career level of their classification will receive the COLA in the form of a lump sum at the end of the fiscal year. Cost of living increases will not be retroactive and are in effect as directed by the Governor or his designee.

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 **DRAFT**

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POLICY TITLE: Promotions and Demotions Policy: Arkansas Lottery Commission, Human Resources Division

CATEGORY: Operating Procedures: Employment

DATE OF ISSUANCE:

ACCOUNTABILITY: Department of Administration, Arkansas Lottery Commission: Questions on the content should be directed to ALC's Human Resources Director.

PURPOSE

The purpose of this policy is to establish rules and guidelines for authorized positions, set salaries and entry rates for promotions and demotions in accordance with §23-115-305 of the Arkansas Scholarship Lottery Act and closely align these with the recommendations and procedures of the Office of Personnel Management, Department of Finance and Administration.

SCOPE

The scope of this policy covers the ALC statutory requirement for positions and general compensation. The policy applies to all candidates for promotion and demotion and current ALC employees.

PROCEDURE:

2. At a rate equal to twelve percent (12%) less than the employee's rate of pay at the time of demotion for demotions of one (1) or more grades on the professional and executive pay plan to a position on the career service pay plan.
-
- B. If the employee's salary falls below the entry pay level of the new grade upon demotion, his or her salary may be adjusted to the entry level for that grade.
 - C. An employee's rate of pay upon a demotion will not exceed the amount provided by the maximum pay level of the grade assigned to the classification, unless the employee is eligible for career pay level on the career service pay plan.
 - D. An employee returning within twelve (12) months to a position or classification previously occupied is eligible for a rate of pay no greater than that for which the employee would have been eligible had he/she remained in the lower-graded classification.
 - E. An employee who is placed in a lower-graded position on either compensation plan because the original position has expired due to lack of funding, program changes, or restructuring may continue to be paid at the same rate as the employee was being paid in the higher-graded position upon review by the Personnel Committee and full Commission.
 - F. When a non-exempt employee demotes to a different agency/institution, the originating agency/institution must pay all accumulated compensatory time and overtime to the employee at the time of transfer.
 - G. Non-exempt employees demoting to an exempt classification must have all accumulated compensatory time and overtime paid at the time of transfer.

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POLICY TITLE: Rehires and Transfers Policy: Arkansas Lottery Commission, Human Resources Division

CATEGORY: Operating Procedures: Employment

DATE OF ISSUANCE:

ACCOUNTABILITY: Department of Administration, Arkansas Lottery Commission: Questions on the content should be directed to ALC's Human Resources Director.

PURPOSE

The purpose of this policy is to establish rules and guidelines for authorized positions, set salaries and entry rates and rules for rehires and transfers in accordance with §23-115-305 of the Arkansas Scholarship Lottery Act and closely align these with the recommendations and procedures of the Office of Personnel Management, Department of Finance and Administration.

SCOPE

The scope of this policy covers the ALC statutory requirement for positions and general compensation. The policy applies to all employees transferred from other state agencies, rehires, and current ALC employees.

PROCEDURE:

Section 23-115-305 of the Arkansas Scholarship Lottery Act established for the ALC regular employees, the grades to be assigned to the respective positions, and the maximum annual salaries for each such position.

The maximum annual salary for the positions assigned to grades shall be determined in accordance with, but shall not exceed, the maximum annual amount for the grade assigned in this section, as established in Ark. Code Ann. §21-5-209.

Except for the purpose of determining the maximum annual salary rate, which is to be applicable to each of the positions to which a salary grade is assigned in this section, in accordance with §21-5-209, all positions set forth in this section shall be exempt from other provisions of the Uniform Classification and Compensation Act. §21-5-201 et seq., but shall not be exempt from the Regular Salaries Procedures and Restrictions Act, §21-5-101 et seq.

REHIRED EMPLOYEES:

An employee of a state agency who has been terminated for more than thirty (30) working days and returns to state service, including the ALC, will be eligible for his/her previous exit salary. If that salary falls below the entry level of the grade or classification, the salary will be adjusted to the entry level. Additionally, the salary cannot exceed the maximum pay level of the grade, unless the employee is qualified for the career pay level on the career service pay plan.

If a former employee returns to state service, including the ALC, within thirty (30) consecutive working days, the employee will be processed as a transfer whether the re-employment is with the former agency/institution or in a different agency/institution.

TRANSFERRED EMPLOYEES:

- A) An employee of a state agency who transfers to a classification of the same pay grade within an agency/institution, including ALC, or to another agency/institution is eligible to maintain his/her salary at the time of transfer.
- B) An unclassified employee who transfers to a classified position is eligible to maintain his/her salary at the time of transfer. However, the salary cannot exceed the maximum pay level of the grade, unless the employee is qualified for the career pay level on the career service pay plan.
- C) When a non-exempt employee transfers to ALC from a different agency/institution, the originating agency/institution must pay all accumulated compensatory time and overtime to the employee at the time of transfer.
- D) A non-exempt employee transferring to an exempt classification must have all accumulated compensatory time and overtime paid at the time of transfer.
- E) Employees in regular full and part-time positions who transfer or receive a promotion or demotion will be eligible on ALC's universal merit date to receive their merit increase, provided the employees have twelve (12) months of continuous state service. Eligible part-time employees will receive any merit pay awarded on a pro-rata basis.

F) If an employee has been in the new position less than six (6) months, the current ALC department director has the option of conducting the performance evaluation or may request the performance evaluation from the previous agency.

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POLICY TITLE: Pay Differential Policy, Arkansas Lottery Commission: Human Resources Division

CATEGORY: Operating Procedures:

DATE OF ISSUANCE:

ACCOUNTABILITY: Department of Administration, Arkansas Lottery Commission:

PURPOSE

ALC allows departments to request pay differentials for individual positions or for specific classifications when adequate justification can be provided in compliance with all applicable laws and regulations. The differentials must relate directly to the job functions and duties for the employee/classification for which it is granted as outlined in the procedures in this policy.

SCOPE

The pay differentials apply to all eligible regular employees of the Arkansas Lottery Commission. Pay differentials in this policy include professional certification, educational, shift, geographical and on-call.

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than English, including American Sign Language and that the skill is determined by the division or department to be directly related to the effective performance of the job duties for the position occupied by the employee.

Specific Provisions:

The division or department may request authorization for special language differential rate of pay for an individual employee of up to ten (10%). Payment is based upon four (4) levels of proficiency:

Advanced	10%
Fluent	7.5%
Intermediate	5.0%
Beginning/Basic	2.0%

The division or department must have the employee or prospective employee tested by an organization that can certify proficiency testing at different skill levels. The cost of the testing will be borne by the division or department.

Divisions or departments must submit a written request to the Human Resources Division indicating the positions for which the duties require the skill to communicate in a language other than English, including American Sign Language.

Included in the request should be the justification which states in detail the duties, responsibilities, and reason for the second language requirement for the position.

The request submitted to the Human Resources Division must contain the name and locations of testing facilities and the levels of proficiency tested at the facility' indicate whether the proficiency test is oral or written or a combination of oral and written; and copies of the documentation presented to the incumbent upon completion of testing.

The request must be approved by the Human Resources Division after review by the Personnel Committee of the ALC.

The second language must be used at least 25% of the time in the job to be eligible for this provision.

An employee who is receiving second language differential rate of pay and moves into a position that does not require the skill to communicate in a language other than English, or

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whose position no longer requires the use of the skill, shall revert, on the effective date of the change, to the employee's base rate of pay.

If granting the special language differential rate of pay would exceed the maximum or the career level for the grade assigned to the employee's classification, the additional compensation shall not be considered as exceeding the maximum allowable rate for that grade.

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Employee Committee:

6. Language should be added to clarify item 1 and item 2 under demotions. Language should be consistent with the section on promotions. For example, the demotion rate from one grade on the N pay plan to a lower grade in the same plan should be clarified. The way it is written, the professional and executive pay plan is listed for both item 1 (10%) and item 2 (12%). The promotions section allows for the maximum rate increase of 10% for a promotion to a position of a higher grade on the same pay plan. The 12% increase applies to promoting from the C pay plan to the N pay plan. The committee inquired whether the demotion section should be reworded to mirror the promotions section (i.e., treat demotions within the same pay plan as a 10% decrease and changes from N to C as 12%).

ALC Recommendation:

ALC proposed policy wording is exactly as stated in OPM guidelines for demotions. We recommend rewriting this section for clarity while remaining within OPM's guidelines.

Employee Committee:

7. In attachment 1 under Director's Responsibility, paragraph #3, rewrite the paragraph as follows:
The ALC Director may hire an applicant at a salary level up to and including the midpoint pay level of the appropriate grade of a specific classification. *Salary offers above the midpoint or at \$80,000 and above first must be submitted for review by the Personnel Committee, Arkansas Lottery Commission and then by the full Commission.*

ALC Recommendation:

ALC has, as a matter of record, submitted all salary offers to the Personnel Committee regardless of the amount of compensation. Management recommends as directed by the Commission that salary offers at or above \$80,000 be submitted to the Personnel Committee for review. The Personnel Committee at its discretion can report the salary offer to the full Commission or submit it to the full Commission for further review.

HR Employee Review Committee:

Elizabeth Arnold, Promotions Specialist (C)
Julie Baldrige, Public Affairs Director (N)
Valerie Basham, HR Director(C)
Sam Burks, Sr. Database Administrator(C)
Carolyn Cabell, Product Development Director (N)
Undrea Ellis, Accountant(C)
Teresa Holloway, Accountant (C)
Ivan Hudson, Diversity Business Enterprise Mgr. (N)
Robert Stebbins, Director of Sales (N)
Ken Treadwell, Project Manager (C)
Patti Vick, Business Manager/Paralegal (C)
Bobby Walker, Security Specialist (C)
Mindy Wirges, HR Generalist (C)

cc: Personnel Committee, ALC

Attachment



TO: Commissioners, Arkansas Lottery Commission
FROM: Ernie Passallaigue, Director *EP*
DATE: March 9, 2011
SUBJECT: Response to OPM Recommendations

The Office of Personnel Management (OPM) made five (5) recommendations to the ALC concerning human resources management policies. The recommendations addressed the issues of:

- Salary eligibility
- Annual increases
- Career service recognition pay
- Promotions/demotions
- Rehires/transfers

ALC has written policies on annual increases and career service recognition pay which are in the *Employee Manual* and has implemented these policies in compliance with the Arkansas Scholarship Lottery Act and mirrored OPM policies and practices. ALC uses a universal performance review date as opposed to the state service date for evaluating employee performance. This is the only variance from OPM's performance evaluation policies. The universal performance date (June 30th) is better suited to ALC's operation given that currently payroll and related payroll transactions are not part of AASIS and at this point, ALC operates under a manual human resource management system.

The policies which address annual increases (*Compensation* pg. 40, *Career Service Recognition* pg. 43, *Merit Pay* pg. 47 and *Performance Appraisals* pg. 49) do not address cost-of-living pay adjustments. However, ALC has followed the State and obtained Commission approval for the cost-of-living adjustment (COLA) and has drafted a policy addressing COLAs.

OPM RECOMMENDATION: Rehires/Transfers

OPM recommends that the ALC personnel committee create and adopt rules that are similar to the state practice involving rehires and transfers, especially in light of how many state employees have worked for state agencies or institutions prior to working for the ALC.

ASL RESPONSE

We have drafted a policy on rehires and transfers for the Personnel Committee's consideration. ALC has followed OPM's guidelines as approved by the Commission for handling transfers from other state agencies. ALC does not hire family members of currently serving elected officials and is more restrictive in defining nepotism. Management revised these policy variances and submitted them to the Personnel Committee for review.

Attached is a copy of the draft policies. If you need additional information or have questions, please let me know.

cc: David Barden
Ernestine Middleton
Bishop Woosley

Arkansas



Scholarship Lottery

Arkansas Lottery Commission

Meeting March 9, 2011

FY '12 Budget

Comparison Of Fiscal Year '12 And '11 Budgets

Revenues, Costs and Expenses	FY '12 Budget	Percentage	FY '11 Budget	Percentage	Difference
Operating Revenues	\$459,856,500	100.0%	\$465,398,700	100.0%	\$ (5,542,200)
Prizes	\$296,973,000	64.5%	\$299,120,110	64.3%	2,147,110
Retailer Commissions	\$ 25,720,660	5.6%	\$ 26,112,994	5.6%	392,334
Instant & Online Costs	\$ 23,424,173	5.1%	\$ 19,604,410	4.2%	(3,819,763)
Administrative & Advertising Costs	\$ 13,800,025	3.0%	\$ 15,522,200	3.3%	1,722,175
Other Income	\$ 220,000		\$ 137,500		82,500
Net Proceeds	<u>\$100,158,642</u>	<u>21.8%</u>	<u>\$105,176,486</u>	<u>22.6%</u>	<u>\$ (5,017,844)</u>

Comparison Of Fiscal Year '12 And '11 Budgeted Revenues

	FY '12 Budget	FY '11 Budget
Instant tickets	\$ 379,600,000	\$ 374,125,000
Cash 3	\$ 5,475,000	\$ 10,140,000
Cash 4	\$ 3,285,000	\$ 4,056,000
Powerball	\$ 36,500,000	\$ 50,700,000
Mega Millions	\$ 21,900,000	\$ 15,210,000
Decades of Dollars	\$ 9,125,000	\$ 0
Raffle	\$ 3,412,500	\$ 10,000,000
Totals	\$ 459,297,500	\$ 464,231,000

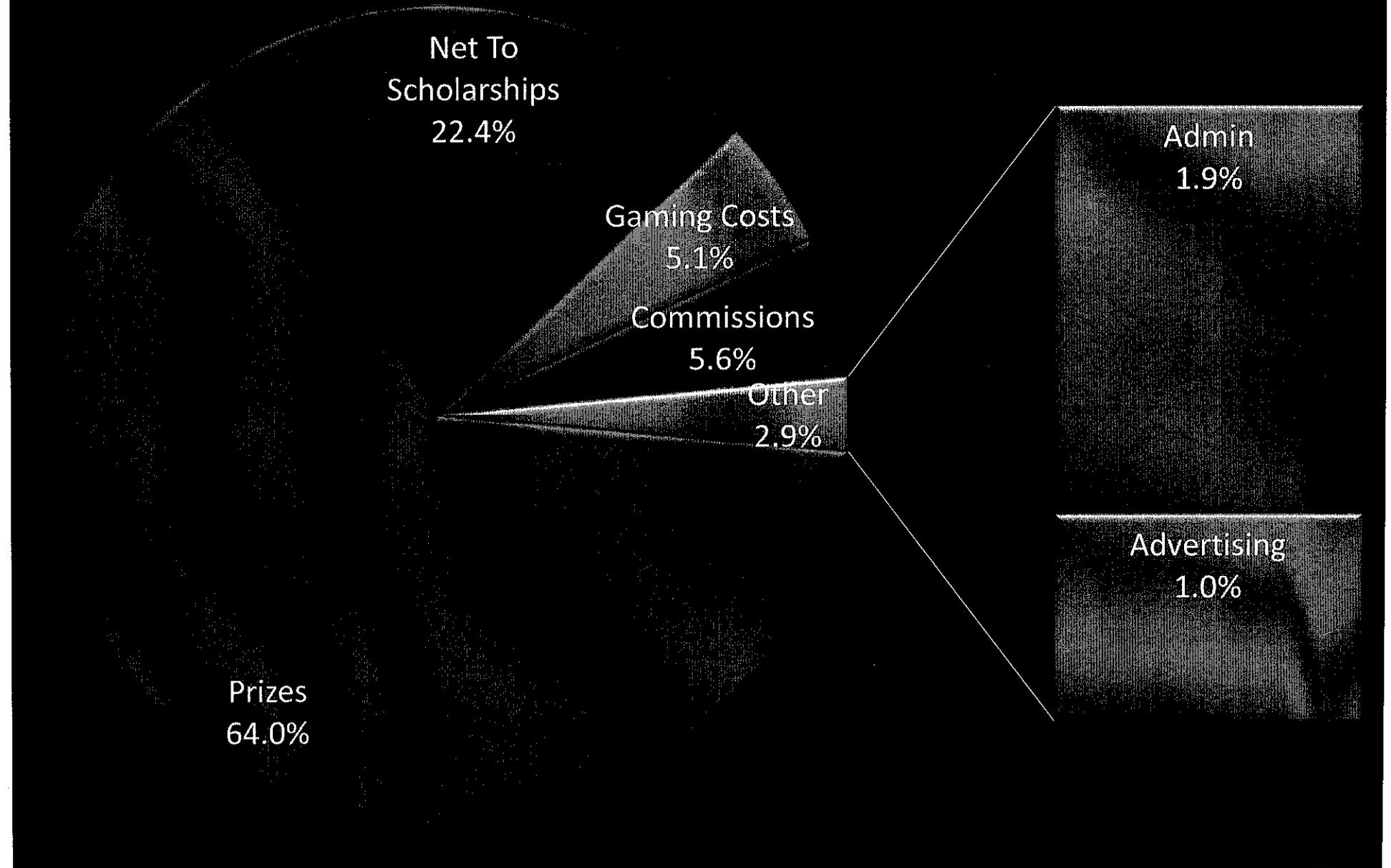
Fiscal Year 2012 Budget Administrative And Advertising Expenses

	FY '12 Budget	FY '11 Budget
Staff Compensation & Benefits	\$ 6,730,000	\$ 6,500,000
Marketing, Advertising and Promotions	\$ 4,500,000	\$ 5,000,000
General and Administrative Expenses	\$ 1,638,025	\$ 2,205,000
Services Provided By Other Agencies	\$ 342,000	\$ 525,000
Legal and Professional Services	\$ 375,000	\$ 316,000
Capital Asset Depreciation	\$ 215,000	\$ 579,000
Total Operating Expenses	\$13,800,025	\$15,125,000

Fiscal Year 2012 Budget Transfers To The Educational Trust Fund

Net Income Before Transfers		\$100,158,643
Add Accrual Expenses:		
Depreciation	\$ 215,000	
Health Insurance	\$ 230,000	\$ 445,000
Add Unclaimed Prizes:		
Gross Unclaimed Prizes	\$ 6,092,488	
Less: Unclaimed Expended	\$ 2,500,000	
Unclaimed Carried Over	\$ 1,000,000	
Dept of Health	\$ 200,000	\$ 2,392,488
Deduct:		
Fixed Asset Purchases	\$ 50,000	
Fidelity Fund Fees	\$ 15,000	\$ 65,000
Transfers To Education		\$102,931,131

FY 2012 Budgeted Transfers As A Percentage Of Revenues \$460.1 Million



ARKANSAS LOTTERY COMMISSION
2010 AUDIT CORRECTIVE ACTION WORKSHEET
Friday, July 01, 2011 Tuesday, March 08, 2011

FINDING/RECOMMENDATION	DIVISION/DEPARTMENT	INDIVIDUAL ASSIGNED	ACTION TAKEN/ ACTION TO BE TAKEN	STATUS	INTERNAL AUDITOR REVIEW	PROJECTED COMPLETION	DATE IA CLEARED
<p>FINDING 2010 -1: § 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 CFO 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 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.</p> <p>RECOMMENDATION: 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.</p>	Finance/ Administration	Philip Miley, Chief Fiscal Officer <u>Oversight:</u> Ernie Passailaigue, Director Ernestine Middleton, VP Administration	Finance staff will coordinate and seek advice from the DFA CAFR Section when preparing year-end financial statements to ensure all financial matters affecting the CAFR report properly reflects ALC financial transactions. ALC finance personnel will participate in continuing professional education (CPE) courses offered by DFA that pertain to GAAP.	Interim financial statements are in compliance as of the November 2010 report. The year end June 2011 CAFR report will be completed by the August deadline in accordance with GAAP. 2/14/11 UPDATE – Current monthly financial statements are formatted according to GAAP. This item will be resolved at the end of the fiscal year with preparation of the annual financial report.	Audit Objective #1 Review Arkansas Lottery Commission's June 30, 2011 Financial Statements and related notes prior to submission to the Division of Legislative Audit. Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.	August 2011	

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<p>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 <i>Recital of Selected Options</i> with a cost of 1.92% of net sales plus an additional cost of 1.5% of the prize fund. The estimated cost of the <i>Recital of Selected Options</i> compared to the original reviewed price proposal is an estimated additional \$3.9 million per year. In addition to the <i>Recital of Selected Options</i>, 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.</p> <p>RECOMMENDATION: We recommend the Agency ensure compliance with State law by submitting appropriate documents for review by the Arkansas Lottery Commission Legislative Oversight Committee.</p>	Legal/Gaming	<p>Bishop Woosley, Chief Legal Counsel</p> <p><u>OVERSIGHT:</u> Ernie Passailaigue, Director</p> <p>David Barden, VP of Gaming</p>	<p>It is the position of ALC staff that the "amendments" to the Instant Ticket RFP referenced in DLA Audit Finding #2, were in fact original terms of the contract between the ALC and SGI, were not amendments at all, and did not require additional review by the LOC. Legal counsel will present this argument and provide additional analysis regarding the ramification of adopting the recommendation to the LOC for their review and decision.</p> <p>2/14/11 UPDATE- ALC submits licensing agreements to the Legislative Oversight Committee as required.</p>		<p>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.</p> <p>Internal Audit's Conclusion -An agreement has been reached concerning the submittal of contract documents for review by the LOC.</p> <p>Audit Objective #3 Determine that Lottery management is submitting appropriate contractual documents for review by the LOC.</p> <p>Internal Audit's Conclusion Per audit fieldwork, all applicable licensing agreements have been submitted. Lottery Legal Counsel indicates that Lottery is in compliance with LOC request.</p>		03/08/2011

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<p>MANAGEMENT LETTER – 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 for instant games. The Agency does not review prize payments for instant ticket games or prize payments below \$10,000 for online 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.</p> <p>RECOMMENDATION: 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.</p>	Security/Gaming	<p>Bishop Woosley, Chief Legal Counsel</p> <p><u>Oversight:</u> Ernie Passailaigue, Director</p> <p>David Barden, VP Gaming</p>	<p>After review of federal law regarding the collection and use of personal information for ineligible players as defined under Ark. Code Ann. § 23-115-403(f)(1), of employees, Commission members and the immediate family members of employees and commission members since late 2009, the ALC has ceased the collection of and the use of this personal information in any way. These concerns were based primarily on limitations set forth in federal law regarding the collection and use of personal information from individuals and the fact that the Arkansas Scholarship Lottery Act is silent to any statutory authority to gather any personal information from ineligible players and use that information to enforce, prevent, monitor, or otherwise regulate both the purchasing and/or winning of a lottery prize by these individuals. These legal concerns have been expressed to both the Office of Legislative Audit and the Bureau of Legislative Research.</p> <p>It is the hope that the Arkansas Scholarship Lottery Act could be amended to clarify or otherwise provide some guidance as to gathering of information for ineligible players for use in the enforcement, prevention, monitoring or regulation of the purchasing and/or winning of a lottery prize by the individuals deemed as ineligible players under the statute.</p> <p>1/5/11 UPDATE: ALC has updated the prize validation form requiring claimants to certify that they are not related to ALC employees or Commission members. The LOC is reviewing proposed changes to the restriction on play limiting it to members of employees and commissioners household.</p> <p>2/14/2011 Update: House Bill 1302 has been filed which proposes to amend the Arkansas Scholarship Lottery Act provision relating to those individuals considered to be ineligible players under the law. If House Bill 1302 is enacted in its current form the ALC will modify its checklist and procedures accordingly.</p> <p>3/4/11 UPDATE: HR staff is prepared to gather employee and commissioner household data if the definition is changed. Intralot will provide the data to the Claim Centers to verify player eligibility.</p>		<p>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.</p> <p>Status as of March 8, 2011 No findings or recommendations.</p> <p>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.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p>		

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<p>MANAGEMENT LETTER – 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.</p> <p>RECOMMENDATION: We recommend the Agency develop policies and procedures to ensure criminal background checks are received prior to employment.</p>	Human Resources/Administration	<p>Valerie Basham, HR Director</p> <p><u>Oversight:</u> Ernie Passallaigue, Director</p> <p>Ernestine Middleton, VP Administration</p>	<p>All ALC personnel were properly notified that employment was contingent upon a clear background check. To facilitate a quick start-up, employment started prior to the receipt of the criminal background report which took a few weeks to complete. This practice was rescinded shortly after start-up. As of April 2010, all background information must be received <i>prior</i> to starting employment with ALC.</p> <p>A new application for employment form was developed specifically for ALC inquiring into the criminal background of applicants and a procedure was written.</p>	<p>Recommendation was implemented in April 2010.</p> <p><i>The Pre-Employment Background Procedure</i> outlines ALC procedure for conducting background checks.</p> <p>2/14/11 UPDATE – ALC is in compliance and this item has been cleared by auditors for the period after April 19, 2010.</p>	<p>Audit Objective #6 Determine that ALC management has established written policies and procedures concerning employee background checks.</p> <p>Internal Audit's Conclusion Written policies and procedures have been developed.</p> <p>Audit Objective #7 Determine that background checks are received and reviewed prior to the first day of employment.</p> <p>Internal Audit's Conclusion Audit fieldwork revealed that for all employees hired from April 19, 2010 through January 7, 2011, a background check was received and reviewed prior to the first day of employment.</p>	April 2010	01/07/2011

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<p>MANAGEMENT LETTER – 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, which may be required to reimburse the Agency for compensatory time already taken.</p> <p>RECOMMENDATION: 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.</p>	Human Resources/Administration	Valerie Basham, HR Director <u>Oversight:</u> Ernie Passailaigue, Director Ernestine Middleton, VP Administration	<p>The ALC Commission has approved 80 hours of compensatory time for eligible exempt employees regardless of the number of hours worked in excess of 80 hours with the exception of senior executive management. Eligible employees will be required to execute a leave request specifically requesting compensatory time as leave and having that form approved by their supervisor.</p> <p>1/5/11 UPDATE: A policy requiring written approval to work overtime for non-exempt employees is in effect.</p> <p>2/14/11 UPDATE: Director has reimbursed ALC. VP Gaming will complete reimbursement by 3/11 and VP Administration by 7/11</p> <p>3/4/11 UPDATE: VP of Gaming has repaid all compensatory time as of 2/25/11. Deductions have started for VP of Administration <u>with full repayment scheduled for July 2011.</u></p>	<p>The HR Director has provided written instructions to eligible employees on the use of compensatory time.</p> <p>Senior executive management is reimbursing the State for compensatory time usage.</p>	<p>Audit Objective #8 Determine if any additional compensatory time has been granted to exempt employees' since the audit report date of June 30, 2010.</p> <p>Status as of March 8, 2011 No findings or recommendations.</p> <p>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.</p> <p>Status as of March 8, 2011 No findings or recommendations.</p> <p>Audit Objective #10 Determine that compensatory time usage is accounted for in accordance with policies and procedures, approved, and adequately supported.</p> <p>Status as of March 8, 2011 No findings or recommendations.</p> <p>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.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p>		

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<p>MANAGEMENT LETTER – 4: Acts 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.</p> <p>RECOMMENDATION: We recommend the Agency seek legal guidance as to the applicability of Ark. Code Ann. §§ 23-115-304(b), 24-4-101, 24-4-601. In addition, the Agency should seek reimbursement for any overpayment that may be determined.</p>	Legal /Gaming	<p>Bishop Woosley, Chief Legal Counsel</p> <p><u>Oversight:</u> Ernie Passailaigue, Director</p> <p>David Barden, VP Gaming</p>	<p>Referred to the Attorney General’s Office for an opinion.</p> <p>2/14/11 UPDATE: Opinion supports paying benefits at the base salary without the multiplier. ALC is working with APERS on the adjustments and reimbursement to the agency.</p> <p>3/4/11 UPDATE: ALC and APERS staff have met to process the <u>refund repayment to ALC and the employee. Repayment is expected in March 2011.</u> Finance has adjusted the deduction to the appropriate level based on the base salary without a multiplier.</p>	N/A	<p><u>Audit Objective #12</u> 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).</p> <p><u>Status as of March 8, 2011</u> No findings or recommendations</p> <p><u>Audit Objective #13</u> If applicable, Determine that the Arkansas Lottery Commission has been reimbursed any excess retirement contributions.</p> <p><u>Status as of March 8, 2011</u> See Internal Audit’s Status Report dated March 8, 2011.</p>		

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<p>MANAGEMENT LETTER – 5: Review of travel reimbursements, travel credit card statements, and supporting documentation revealed the following:</p> <p>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/reimbursement totaling \$16,189 was made that are in conflict with State laws and travel regulations.</p> <p>RECOMMENDATION: We recommend the Agency strengthen internal controls related to travel expenditures by requiring all travel expenditures are 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.</p>	Finance/Administration	Phillip Miley, CFO <u>Oversight:</u> Ernie Passallaigue, Director Ernestine Middleton, VP Administration	<p>ALC has changed internal travel policies and procedures to closely follow the Department of Finance and Administration's travel regulations. ALC has appointed the VP of Gaming as the ALC Travel Administrator.</p> <p>All overnight travel must be approved in advance by the travel administrator and ALC Director. Forms and policies have been developed and posted on ALC's internal Intranet system and on a shared drive to provide easy access to travel requirements.</p> <p>Travel training will be scheduled with DFA and appropriate staff. A travel checklist has been developed to ensure all appropriate documentation is included in the travel file.</p> <p>2/14/11 UPDATE: The travel policy has been updated and includes a travel administrator as well as emphasis on required documentation for reimbursement. Travel training is scheduled for March.</p> <p>3/4/11 UPDATE: ALC, in conjunction with DFA, developed a travel training seminar and ALC staff presented the seminar to all ALC employees. A special segment was presented for sales personnel on 3/2/11.</p>	<p>Travel expenses which are not properly documented or that are in conflict with State laws and ALC's Travel policy will not be paid or reimbursed.</p> <p>Staff have reimbursed ALC and/or properly documented expenses where appropriate.</p>	<p>Audit Objective #14 Determine that the Lottery has adequate written policies and procedures for employee travel expenditures.</p> <p>Internal Audit's Conclusion The Lottery appears to have adequate written policies and procedures governing travel. Policies are periodically reviewed and updated.</p> <p>Audit Objective #15 Determine that all travel expenditures are in accordance with the Lottery's policies and procedures, adequately supported, and approved by the appropriate personnel. Prepare a monthly schedule of travel expenditures.</p> <p>Internal Audit's Conclusion Internal Audit reviewed employee travel reimbursements for the months of December 2010, January 2011, and February 2011 and did not reveal any exceptions. Internal Audit will continue to review travel monthly and provide the ALC with a schedule of travel expenditures.</p>	12/7/10	03/08/2011

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<p>MANAGEMENT LETTER – 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.</p> <p>RECOMMENDATION: We recommend that the Agency ensure that retroactive payments be supported by appropriate documentation and seek recovery of the amounts overpaid.</p>	Human Resources/Administration	<p>Valerie Basham, HR Director</p> <p><u>Oversight:</u> Ernie Passailaigue, Director</p> <p>Ernestine Middleton, VP Administration</p>	<p>ALC corrected the reclassification dates of the affected employees to resolve the administrative error.</p> <p>2/14/11 UPDATE: Pay actions referred to OPM for review as suggested and justification has been added to the files.</p> <p>3/4/11 UPDATE: OPM response is attached and was non-conclusive. The following is the Chief Legal Counsel’s response. A.C.A. 19-4-1610, which prohibits retroactive pay to an employee, does not classify “salary payments made to correct an administrative error” as retroactive pay. The only restriction which that code section places on the ALC as an agency is to require that it secure the consent of the Chief Fiscal Officer of the State in the event that the agency is asking to make payments to correct an administrative error for a “preceding fiscal year.” It is my understanding that is not what is being done in this case. It is my opinion that the ALC makes its own decisions regarding these issues with the exception of the instances where the ALC is requesting to make a payment for a “preceding fiscal year.” Inasmuch as this decision lies entirely within the discretion of the ALC, I do not feel that it is a <u>requirement</u> that we seek or receive approval of our actions from OPM. Although I certainly respect the opinion of OPM and understand that DLA has suggested that this matter be sent to OPM for their review, it is my belief that any decision from OPM, whether favorable or unfavorable, is not binding or otherwise dispositive of this matter. Further, from a purely legal standpoint, my advice to the ALC would not change even if a review from OPM did not look favorably on our actions. The two employees in question were legally entitled to the funds received.</p>	Personnel action forms have been amended to reflect the actual date of the reclassification of the positions.	<p>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.</p> <p>Status as of March 8, 2011 No findings or recommendations.</p> <p>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.</p> <p>Status as of March 8, 2011 See Internal Audit’s Status Report dated March 8, 2011.</p> <p>Audit Objective #18 If applicable, determine if improper retroactive payments have been recovered.</p> <p>Status as of March 8, 2011 See Internal Audit’s Status Report dated March 8, 2011.</p>	November 30, 2010	

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<p>MANAGEMENT LETTER – 7: The Control Objectives for Information and Related Technology (COBIT) Delivery and Support Domain 11 outlines the best practices for ensuring financial data are 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:</p> <p>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.</p> <p>The software only has the capability to identify seven payroll deductions on an employee's remuneration statement, however many employees have more than seven 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, -307. These situations could allow errors or fraud to occur and not be detected in a timely basis.</p> <p>RECOMMENDATION: We recommend that the Agency work with the application vendor to implement additional controls that will strengthen the control environment.</p>	Finance/Administration	Philip Miley, CFO Valerie Basham, HR Director	ASL Peachtree administrator has deactivated the feature in Peachtree which allows the deletion of transactions in the current accounting period. This feature was never available once each month's financial statements had been prepared and the month closed. ALC has balancing procedures in place to ensure that financial transactions are accounted for properly. Additionally, the CFO will review and print the Audit Log report each month to document compliance with this policy.	Completed - December 1, 2010	<p>Audit Objective #19 Determine if the feature that allows the deletion of transactions in the current accounting period has been deactivated.</p> <p>Status as of March 8, 2011 No findings or recommendations.</p>		
	Human Resources/Administration	Ernie Passailaigue, Director Ernestine Middleton, VP Administration	The Peachtree payroll system allows for approximately 30 deduction fields for payroll purposes, all of which can be printed on the employee remuneration statement. ALC is currently utilizing 23 fields with 7 fields available for use. However, as a state agency, we have to offer all the benefits available to other state employees which could exceed 30. We are researching other software (including AASIS) to address the limitations noted by auditors.	<p>In process. We will make a determination of which software to use by January 31, 2011.</p> <p>2/14/11 UPDATE: Payroll software project is on hold pending outcome of bill transferring ALC back to AASIS in March 2011.</p> <p>3/4/11 UPDATE: Preliminary plans are being made to change payroll systems and acquire a human resource information system (HRIS) for ALC.</p>	<p>Audit Objective #20 Determine that 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.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p> <p>Audit Objective #21 Determine that 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.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p>	March 2011	

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<p>MANAGEMENT LETTER – 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.</p> <p>RECOMMENDATION: We recommend the Agency strengthen internal controls over cash receipts.</p>	Treasury/Administration Security/Gaming	<p>Timothy Parrish, Treasurer and Phillip Miley, CFO, Lance Huey, Security Director</p> <p><u>Oversight:</u> Ernie Passailaigue, Director</p> <p>David Barden, VP Gaming</p> <p>Ernestine Middleton, VP Administration</p>	<p>ALC discourages payment in cash. However, all cash received through the mail will be routed through Security. There are balancing safeguards between Security, Treasury, and Finance to ensure all cash receipts are accounted for with proper internal controls.</p> <p>Security is reporting to Treasury check counts and amounts on a daily basis. The treasurer will receive copies of the checks or other documents to ensure that the check log is complete. All monies will be deposited daily with an electronic verification from the bank of the transaction.</p> <p>2/14/11 UPDATE: Cash receipting policy and procedure updated strengthening internal controls.</p>	Completed	<p>Audit Objective #22 Determine that the Lottery has adequate written policies and procedures for the cash receipting process.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p> <p>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.</p> <p>Internal Audit's Conclusion Internal Audit fieldwork indicates the Lottery is in compliance with the Lottery's <i>Check and Monetary Receipt Policy</i>.</p>	12/3/10	03/08/2011

ARKANSAS LOTTERY COMMISSION
2010 AUDIT CORRECTIVE ACTION WORKSHEET
~~Friday, July 01, 2011~~ ~~Tuesday, March 08, 2011~~

FINDING/RECOMMENDATION	DIVISION/DEPARTMENT	INDIVIDUAL ASSIGNED	ACTION TAKEN/ ACTION TO BE TAKEN	STATUS	INTERNAL AUDITOR REVIEW	PROJECTED COMPLETION	DATE IA CLEARED
<p>MANAGEMENT LETTER – 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.</p> <p>RECOMMENDATION: 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.</p>	Finance/Administration	Philip Miley, CFO <u>Oversight:</u> Ernie Passailaigue, Director Ernestine Middleton, VP Administration	<p>ALC will revise its disbursement policy to ensure all financial commitments are approved by appropriate levels of management before a binding transaction occurs.</p> <p>ALC has reduced the P-Card limitation for two card holders and we will ensure that proper controls are in place and consistent throughout the agency.</p> <p>1/5/11 UPDATE: ALC has updated the purchasing policy as recommended and will review related personnel issues to improve the process and ensure adequate controls.</p> <p>2/14/11 UPDATE: Purchasing policy updated clarifying CFO approval authority for reoccurring routine expenses such as lease payments.</p>	In process	<p>Audit Objective #24 Determine that the Lottery has adequate written policies and procedures for disbursements.</p> <p>Internal Audit's Conclusion Written policies and procedures have been developed.</p> <p>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.</p> <p>Internal Audit's Conclusion A review of transactions indicated that the Lottery was in compliance with policies and procedures.</p>	JANUARY 2011	02/08/2011

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<p>MANAGEMENT LETTER – 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.</p> <p>RECOMMENDATION: 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.</p>	Legal/Gaming	Bishop Woosley <u>Oversight:</u> Ernie Passailaigue, Director David Barden, VP Gaming		<p>All funds are returned to players in the form of prizes, regardless of the calculation. This finding has a net zero fiscal impact on scholarships.</p> <p>2/14/11 UPDATE: ALC has replaced the formula used to calculate Points for Prizes fee with another formula.</p>	<p>Audit Objective #26 Determine that the Lottery and the instant ticket game vendor, in writing, have clarified the calculation for the "Points for Prizes" fee.</p> <p>Status as of March 8, 2011 No findings or recommendations.</p> <p>Audit Objective #27 Determine that the Lottery is remitting to the instant ticket game vendor the correct amount for the "Points for Prizes" fee.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p>		

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<p>MANAGEMENT LETTER – 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 ten-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.</p> <p>RECOMMENDATION: 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.</p>	Finance/Administration Sales/Gaming	<p>Philip Miley, CFO and Robert Stebbins, Sales Director</p> <p><u>Oversight:</u> Ernie Passallaigue, Director</p> <p>David Barden, VP Gaming</p> <p>Ernestine Middleton, VP Administration</p>	<p>ALC corrected this issue after discussion with the auditors in the initial exit conference (April).</p> <p>Electronic map mileage is used to determine mileage between cities and verified by sales and finance staff before payments are made. MSR mileage exceptions or irregularities are investigated and verified through trip documentation logs maintained by the vendor and Google® research.</p> <p>2/14/11 UPDATE: All employees including MSRs are scheduled for training in March on travel.</p> <p>3/3/11 UPDATE: MSRs attended travel training customized for their position. The training was developed in conjunction with DFA and conducted in-house.</p>	Complete	<p>Audit Objective #28 Determine that the Lottery has adequate written policies and procedures concerning personal vehicle mileage reimbursements for Marketing Sales Representatives.</p> <p>Status as of March 8, 2011 No findings or recommendations .</p> <p>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.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p> <p>Audit Objective #30 Determine that the Lottery is not reimbursing Marketing Sales Representatives for commuting from their personal residence to their assigned territory.</p> <p>Status as of March 8, 2011 See Internal Audit's Status Report dated March 8, 2011.</p>	APRIL 2010	