

MINUTES
ARKANSAS LOTTERY COMMISSION
Wednesday, July 13, 2011
9:30 a.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order. In attendance also were Commissioners Malone, Pickard, Campbell, Engstrom, Faris, Frazier, Hammons and Shipp. The ASL was represented by Director Passailaigue, Internal Auditor Hyde, David Barden, Ernestine Middleton, Bishop Woosley, Julie Baldrige, Patricia Vick, Lance Huey, Philip Miley, Whitnie Hall, Valerie Basham, and Jeremy Smith.

Commissioner Lamberth asked the Commissioners to review the Minutes for the June 6, 2011, meeting. By motion of Commissioner Frazier, seconded by Commissioner Campbell, the Minutes were approved without dissent.

Chairman Lamberth introduced Commissioner Shipp, the new Chair of the Higher Education Committee, who welcomed Arkansas Department of Higher Education Interim Director Shane Broadway. He introduced several ADHE staff members in attendance, including Lawrence Graves, who has attended virtually every ALC meeting and will retire prior to the next meeting. He commended Mr. Graves for his work with the Lottery Commission, and the Commissioners concurred. Director Broadway said the first bits of scholarship data were coming together. He said he and the ADHE staff had each done whatever was required of them to get through the thousands of scholarship applications as well as the renewals. He thanked Commissioner Pickard, who volunteered several times at the ADHE offices to read transcripts and application materials. Director Broadway said ADHE had met its goal of completing this evaluative work by June 22 and making notifications beginning July 5, which he said occurred in 2010 in mid-August. He thanked the ALC and the staff for producing the new advertisements on the Challenge (Lottery) Scholarships, saying they were better targeted to get the word out on the availability of the scholarships to lessen any confusion, saying they provided excellent help to ADHE. He distributed information sheets (included in packet) and said their vastly improved Computer system would produce the most significant financial aid data ever available and would be a tremendous help to policymakers. He explained several kinds of scholarship alternatives and the rules which governed each. Although awards for non-traditional scholarships are capped by law at \$12 million, the new students and current achievers may be eligible for all available new dollars this fall, with only the non-traditional Challenge scholarships (those who received them last year) having funds for 2011-12. Of the 31,000 students receiving scholarships for the 2010-11 school year, 75% graduated, completed their eligibility, or retained their scholarships.

Commissioner Engstrom asked him whether the projected shortfall between the estimated lottery and actual net proceeds would affect scholarships. Director Broadway stated that it would not in the current year, but could do so eventually. He said ADHE

had created projections and models based on a wide range of funding possibilities and thus were prepared for the \$94.2 million result.

Commissioner Campbell asked why there were 28 per cent fewer applicants this year and also the basis for awards. Mr. Broadway said possibly there was a greater understanding that non-traditional students understood there was unlikely to be any additional funding; and he explained the 'pecking order' of scholarship recipients by category, by closeness to graduation, by grade point and by major, with science, technology, engineering, and mathematics weighted.

Director Passailaigue presented his report on lottery sales, products, and scholarships (included in file). He discussed comparative income from FY 2010, noting a rise in income in June 2011, compared to the same month the previous year. He described the introduction of the four new instant tickets in late June, rather than their usual July release, as a means to take advantage of the Independence Day weekend. He analyzed the difference between GAAP basis financial statements accounts and the actual net proceeds available for scholarship funding (a Power Point of his entire presentation is appended to the minutes). Commissioner Engstrom questioned whether the \$1 Million in unclaimed prize reserve fund, if unspent, would be available for scholarships. The Director said that was an inaccurate assessment, because the appropriate utilization of unclaimed prize money would actually increase sales and net scholarship proceeds. The Director pointed out that FY2011 was the first full twelve month period of operations, noting that his projection was within \$8,000 of actually annual revenues of over \$465 million. He noted that Arkansas's Lottery has the most successful loyalty program in the world, featuring the Play It Again/Points for Prizes program. Commissioner Malone pointed to evidence that the balance between instant ticket sales versus online ticket sales are out of proportion to other lotteries and noted that the disparity had been discussed at several meetings. He urged formulating an articulated sales and marketing plan for increasing the proportion of online tickets. The Director said that the staff is planning on using the unclaimed prize money, as the result of a recent legislative change, to address those concerns. The Director said he would present to the Commission a plan for their review. Commissioner Engstrom asked that expenditures from the unclaimed prize money be put into the budget and brought back before the Commission for approval. Mr. Passailaigue stated that it was in the budget.

Commissioner Pickard asked to receive information on promotional activities in other states. He also inquired about TVM deployment and asked for a breakdown of numbers placed in existing retail locations and numbers in new retail locations. The Director stated he believed that all one hundred machines would be fully deployed in the next several months.

Commissioner Campbell discussed the ADHE budget item.

Commissioner Pickard, citing pre-launch projections, asked that the staff look at other states and come up with an aggressive program to produce a 25% scholarship return. Mr. Passailaigue discussed the changes in Powerball, the possible change in Decades of Dollars, a national premium game, and an international game. Commissioner Malone said he understood the concept of getting net revenues up by increasing play of the online games and said he would like to see a comprehensive plan to accomplish this goal. Commissioner Lamberth asked Mr. Barden to prepare a plan for the next ALC

meeting. Commissioner Hammons asked that the elements of the plan include estimated incremental increases in net proceeds.

Commissioner Engstrom said that it was his belief that Arkansas's Lottery has spent \$15 million more annually with the major vendors than did South Carolina. Director Passailaigue addressed the differences in the two states contracts. Further, he said, the Commission, led by Chairman Thornton, stated it was their first priority to launch the Lottery as quickly as possible and that the online and instant ticket RFPs accomplishes that mandate. He noted that both RFPs were reviewed and approved by both the Commission and Legislative Oversight Committee.

Director Passailaigue discussed the changes to the Powerball game effective January 15, 2012. He described the new game and matrix. He said the Powerball Group believes jackpots will be higher and will grow more quickly, with a \$40 Million minimum jackpot, better odds, and a new Power Play feature. He said this game would be potentially the most important new revenue generator in FY2012.

After a short break, the Committee Chairs announced the following:

Commissioner Campbell, Chair of the Retail Committee, said that he had been re-elected Chair and Commissioner Frazier was the new Vice Chair. He said they were looking into ways to increase the interests of the Lottery's retailers.

Commissioner Shipp, the new Chair of the Higher Education Committee, said that Commissioner Frazier had been chosen as Vice Chair. She thanked Commissioner Pickard, the outgoing Chair, for his leadership and vision.

Commissioner Pickard, the new Chair of the Audit and Legal Committee, noted that Commissioner Engstrom was chosen Vice Chair and he and former Chair Commissioner Malone presented a report of the June 30, 2011, Audit and Legal Committee meeting, described below.

Commissioner Hammons, the Chair of the Personnel Committee, noted that Commissioner Shipp was chosen Vice Chair and presented a report of the July 1, 2011, Personnel Committee meeting, described below.

For his report on the June 30, 2011, Audit and Legal Committee Meeting, Commissioner Malone, introduced Internal Auditor Michael Hyde for his Commission Report (included in file). Mr. Hyde said that the Legislative Auditors have arrived to conduct the FY 2011 audit. He anticipates they will complete their field work by October 1 and expects a formal report later that month. Commissioner Engstrom said that, speaking as a CPA with an audit practice, the staff should expedite the work of the Legislative Auditors by offering them full cooperation. Commissioner Malone reported that, during the June 30 meeting, four recommendations had come forward. (1) Commissioners should feel free to discuss any relevant matter with the Internal Auditor but the Commission formally acknowledges that he has the option of informing a Commissioner that his other duties need his attention when that is the case. By motion of Commissioner Engstrom, seconded by Commissioner Pickard, this matter was approved without dissent. (2) Escrow matter: Commissioner Engstrom asked for a full analysis of the options for storage of data. He noted that the Committee had approved Ms. Middleton receiving a copy of the data currently held at DIS, which database should continue to be held and

not depopulated, and that an analysis is made on data storage for retailer licensing. Commissioner Lamberth asked if the current status quo on data storage would be maintained and Commissioner Engstrom said that it would. By motion of Commissioner Malone, seconded by Commissioner Faris, and without dissent it was approved to give Ms. Middleton the authority to get the historical data from the DIS licensing database, not to depopulate the database, and that management would prepare an analysis of the benefits and costs of housing the Lottery retailer information in different places. (3) Options on Payroll Accounting. It was reported that the Committee had explored the options as reviewed in the DF&A report and recommended Peachtree Quantum with enhanced controls. By motion of Commissioner Malone, seconded by Commissioner Engstrom, the Committee approved the Committee recommendation without dissent. (4) Retaining Outside Legal Counsel: Commissioner Pickard praised the work of Mr. Woosley and said that nothing in this proposal related to his abilities. He noted that Arkansas Student Loan Authority, on whose Board he serves, has used outside counsel for years, as an extra set of eyes. Mr. Woosley said that the process would require a letter to the Attorney General for approval of the proposal and also review of the RFQ by the Legislative Oversight Committee. Commissioner Engstrom moved that an RFQ for outside counsel be developed for Committee and Commission consideration, with a second from Commissioner Pickard. Discussion followed. The motion was approved, with dissent from Commissioner Lamberth.

The Committee next brought forward the CAFR RFQ presented by Mr. Woosley (copy in file), who said both BKD and Crowe Horwath submitted proposals and that both firms had worked with lotteries in Arkansas, including with Arkansas state agencies. He explained the process through which the Crowe Horwath proposal was selected. Commissioner Engstrom said that while he would prefer to take the proposal to the Committee, time was of the essence and that he recommended approval by the Commission and also asking the Legislative Oversight Committee to meet prior to their August 24 scheduled meeting to review the proposal, in order to meet the deadline of Act 1057. By motion of Commissioner Pickard, seconded by Commissioner Engstrom, the Crowe Horwath proposal was approved without dissent and forwarded to the LOC.

Mr. Woosley presented an update on litigation, noting an interlocutory appeal at the Arkansas Court of Appeals in the trademark case and a late August ruling by the U.S. District Court anticipated in the Frazier case on the ALC motion to dismiss.

Commissioner Pickard expressed his deep gratitude to Commissioner Malone, who chaired the Audit Committee for two years and to Mr. Hyde and Ms. Hall for their work. He asked that the written record of the June 30 Audit and Legal Committee be appended to the Minutes of this meeting (included in file).

Commissioner Hammons, Chair of the Personnel Committee, acknowledged attendance of Kay Terry, Director of the Arkansas Office of Personnel Management. He then moved as follows: that the Arkansas Lottery Commission, from this point forward, utilizes the Office of Personnel Management (OPM) and the process currently in place for all State Agencies when filling positions for new hires or creating new positions. Further, should there be a rare need to exercise the legislative autonomy ALC enjoys, the Commission can override OPM's recommendation. Further, the ALC Personnel Committee would first act on any such override, before the matter goes before the full Commission for final disposition. The motion was seconded by Commissioner Faris, who praised Director Passailaigue for supporting the proposal. Discussion followed, during which Ms. Terry

said that her agency could guarantee one-week turnaround when all information is submitted, that in case of an emergency situation they could act overnight, and that when salaries are in question OPM relies on market data the agency provides. She said, in answer to Commissioner Engstrom, that OPM does perform assessments of the personnel structure of entire agencies and that she would prepare an estimate of the cost. Commissioner Malone noted the entrepreneurial nature of the lottery and said he wanted the agency to remain nimble and flexible to market conditions in its staffing. The motion was approved, with dissent heard from Commissioners Lamberth and Malone. Commissioner Hammons asked that the record of the July 1 Personnel Committee be appended to the Minutes (included in file).

It was announced that the Audit and Legal Committee will meet the first Friday of each month at 10 a.m., that the Personnel Committee will meet the first Monday of each month, and that while both meetings are scheduled, they can be cancelled if no business is pending.

Under Other Business, Commissioner Pickard proposed that the Commission meet on a regularly scheduled date each month. Commissioner Engstrom restated his desire to explore the cost of a videoconferencing system. Commissioner Campbell said that the Parole Board and DIS had such systems. Further discussion followed, after which the monthly meetings were scheduled for the third Monday of each month, with the next meeting on August 15 at 1 p.m.

There being no further business, the meeting was adjourned.

MICHAEL LAMOUREUX
SENATE MINORITY WHIP

SENATOR
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RUSSELLVILLE, ARKANSAS 72801



THE SENATE
STATE OF ARKANSAS

VICE-CHAIRMAN:
REVENUE & TAX
MEMBER:
LEGISLATIVE COUNCIL
JOINT BUDGET
JOINT ENERGY
EFFICIENCY
LEGISLATIVE FACILITIES
CITY, COUNTY & LOCAL AFFAIRS

July 29, 2011

Mr. Ernie Passailaigue
Director
Arkansas Scholarship Lottery
Post Office Box 3238
Little Rock, Arkansas 72203

Dear Mr. Passailaigue:

I just wanted to take this opportunity to let you and the members of the Arkansas Lottery Commission know how pleased I was, as chair of ALC-Personnel and JBC-Personnel, to see the commission recently implement new personnel hiring procedures. I believe these changes are positive ones that will build confidence in the operation of the lottery.

Thank you for your work on behalf of the Arkansas Scholarship Lottery and the State of Arkansas.

Sincerely,

A handwritten signature in black ink, appearing to read "ML".

Michael Lamoureux
Senate Minority Whip
District 4

ML:lag

The table below shows how we figured your penalty. We multiplied the rate times the amount due.

Due Date	Pymt Date	Days Late	Pymt Type	Rate	Amt Due	Penalty
01/05/2010	01/13/2010	8	EFT	5%	124,806.00	6,240.30
01/05/2010	02/10/2010	36	EFT	10%	19,444.00	1,944.40
01/08/2010	01/13/2010	5	EFT	2%	2,500.00	50.00
01/21/2010	02/10/2010	20	EFT	10%	10,556.00	1,055.60
01/25/2010	01/27/2010	2	EFT	2%	269,229.00	5,384.58
01/25/2010	02/10/2010	16	EFT	10%	996.00	99.60
02/03/2010	02/04/2010	1	EFT	2%	3,712.00	74.24
02/03/2010	02/10/2010	7	EFT	5%	1,788.00	89.40
02/02/2010	02/03/2010	1	EFT	2%	34,312.00	686.24
02/02/2010	02/04/2010	2	EFT	2%	3,034,693.00	60,693.86
02/18/2010	03/03/2010	13	EFT	5%	17,222.00	861.10
02/24/2010	03/03/2010	7	EFT	5%	20,722.00	1,036.10
02/26/2010	03/03/2010	5	EFT	2%	46,371.00	927.42
03/10/2010	03/25/2010	15	EFT	5%	4,591.00	229.55
03/10/2010	05/03/2010	54	EFT	10%	5,000.00	500.00
03/17/2010	03/25/2010	8	EFT	5%	1,409.00	70.45
03/24/2010	03/25/2010	1	EFT	2%	48,706.00	974.12
03/31/2010	04/14/2010	14	EFT	5%	8,750.00	437.50
03/31/2010	05/03/2010	33	EFT	10%	2,500.00	250.00
04/02/2010	04/07/2010	5	EFT	2%	25,662.00	513.24
04/02/2010	04/14/2010	12	EFT	5%	29,853.00	1,492.65
04/12/2010	04/14/2010	2	EFT	2%	110,000.00	2,200.00
04/21/2010	04/28/2010	7	EFT	5%	22,500.00	1,125.00
04/21/2010	05/03/2010	12	EFT	5%	2,500.00	125.00
04/20/2010	04/21/2010	1	EFT	2%	32,500.00	650.00
04/20/2010	04/28/2010	8	EFT	5%	97,503.00	4,875.15
06/02/2010	06/03/2010	1	EFT	2%	83,058.00	1,661.16
07/06/2010	07/07/2010	1	EFT	2%	25,000.00	500.00
07/06/2010	07/08/2010	2	EFT	2%	25,000.00	500.00
12/07/2010	12/08/2010	1	EFT	2%	128,056.00	2,561.12
12/07/2010	12/09/2010	2	EFT	2%	31,944.00	638.88
					Total Penalty:	98,446.66

02264

Removal of Penalties

The law lets us remove or reduce penalties if you have reasonable cause or receive erroneous written advice from IRS.

Reasonable Cause

If you believe you have an acceptable reason why IRS should remove or reduce your penalties, send us a signed explanation. After we review your explanation, we will notify you of our decision. In some cases, we may ask you to pay the tax in full before we reduce or remove the penalty for paying late.

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Scholarship Lottery

Commission Meeting

August 15, 2011

Unclaimed Prizes

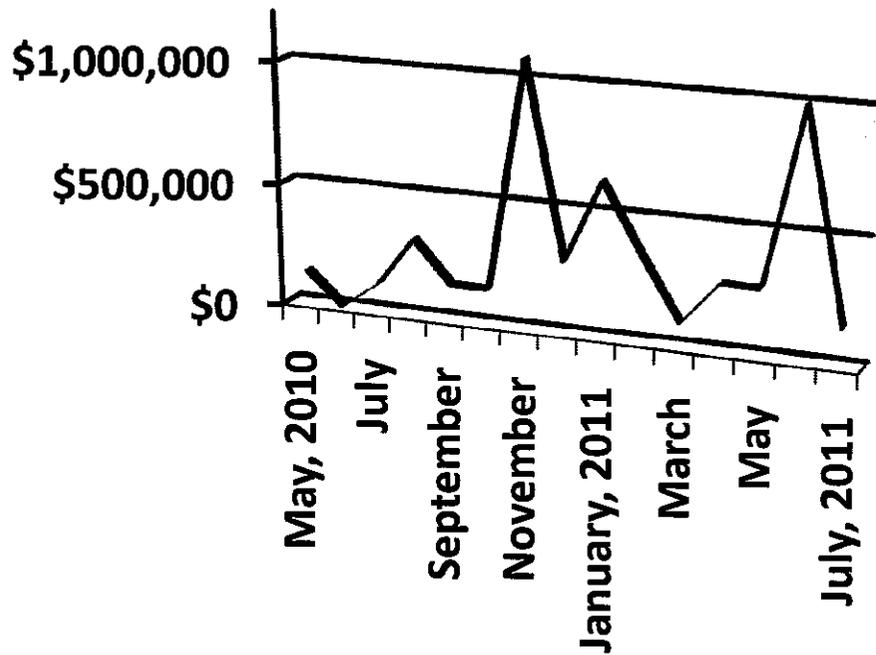
Unclaimed Prizes Trend Analysis

July 2011 Analysis

Budgeted Unclaimed Prizes For July 2011 **\$ 507,707**

Actual Unclaimed Prizes For July 2011 **\$ 152,477**

Over/Under Budget **\$ 355,230**



Comparative Income Statements

July 2011 and 2010

GAAP Basis Income Statement	<u>July 2011</u>	<u>July 2010</u>	<u>Variance</u>
Revenues			
Instant tickets	\$ 30,825,953	\$ 29,140,322	\$ 1,685,631
Online tickets	\$ 5,128,753	\$ 5,813,016	\$ 684,263
Retailer application, fidelity & service	\$ 58,224	\$ 78,154	\$ 19,930
Interest Income	\$ 42,188	\$ 41,887	\$ 301
Total Revenues	\$ 36,055,118	\$ 35,073,379	\$ 981,739
Costs and Expenses			
Prizes, net of unclaimed	\$ 24,636,831	\$ 23,273,220	\$ 1,363,611
Retailer Commissions	\$ 2,014,079	\$ 1,948,825	\$ 65,254
Gaming Contract Costs	\$ 1,803,179	\$ 1,474,169	\$ 329,010
Advertising	\$ 233,126	\$ 242,470	\$ 9,344
General and Administrative	\$ 599,657	\$ 614,575	\$ 14,918
Services Provided By Other Agencies	\$ 109,440	\$ 0	\$ 109,440
Total Costs and Expenses	\$ 29,396,312	\$ 27,553,259	\$ 1,843,053
Net Income	<u>\$ 6,658,806</u>	<u>\$ 7,520,120</u>	<u>\$ 861,314</u>

Comparative Income Statements July 2011

Actual Versus Budget

GAAP Basis Income Statement	July 2011 Actual	July 2011 Budget	Variance
Revenues			
Instant tickets	\$ 30,825,953	\$ 28,595,283	\$ 2,230,670
Online tickets	\$ 5,128,753	\$ 6,187,141	\$ 1,058,388
Retailer application, fidelity & service	\$ 58,224	\$ 38,525	\$ 19,699
Interest Income	\$ 42,188	\$ 18,333	\$ 23,855
Total Revenues	\$ 36,055,118	\$ 34,839,282	\$ 1,215,836
Costs and Expenses			
Prizes, net of unclaimed	\$ 24,636,831	\$ 22,459,022	\$ 2,177,809
Retailer Commissions	\$ 2,014,079	\$ 1,947,603	\$ 66,476
Gaming Contract Costs	\$ 1,803,179	\$ 1,773,710	\$ 29,469
Advertising	\$ 233,126	\$ 375,000	\$ 141,874
General and Administrative	\$ 599,657	\$ 736,771	\$ 137,114
Services Provided By Other Agencies	\$ 109,440	\$ 117,940	\$ 8,500
Total Costs and Expenses	\$ 29,396,312	\$ 27,410,046	\$ 1,986,266
Net Income	\$ 6,658,806	\$ 7,429,236	\$ 770,430

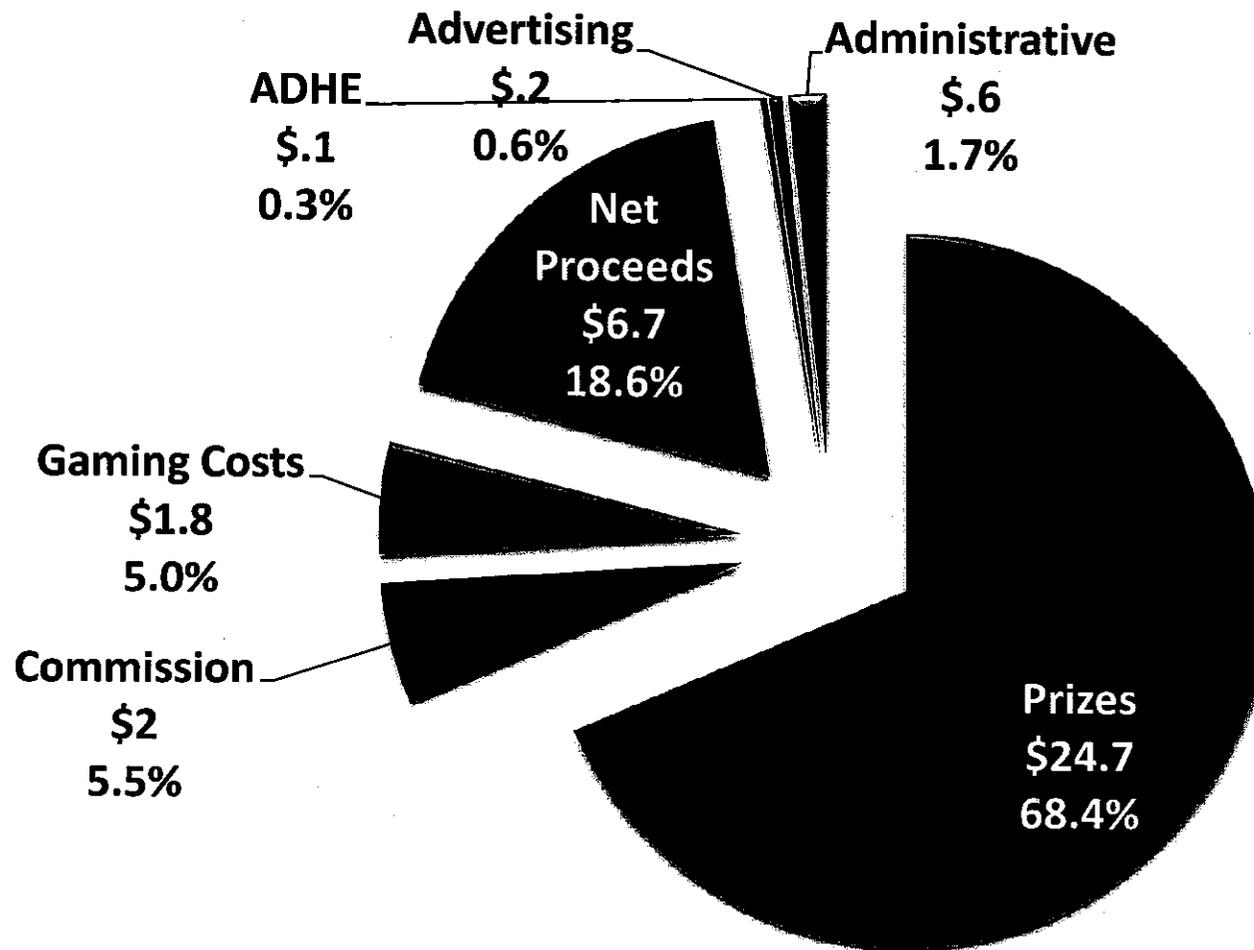
Percentage Comparative Income Statements

GAAP Basis Income Statement	July 2011 Actual	July 2011 Budget	July 2010 Actual
Revenues			
Instant tickets	85.5%	82.0%	83.1%
Online tickets	14.2%	17.8%	16.6%
Retailer application, fidelity & service	0.2%	0.1%	0.2%
Interest Income	0.1%	0.1%	0.1%
Total Revenues	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Costs, Expenses & Net Income			
Prizes, net of unclaimed	68.3%	64.5%	66.4%
Retailer Commissions	5.6%	5.6%	5.6%
Gaming Contract Costs	5.0%	5.1%	4.2%
Advertising	0.6%	1.1%	0.7%
General and Administrative	1.7%	2.1%	1.7%
Services Provided By Other Agencies	0.3%	0.3%	.0%
Net Income	18.5%	21.3%	21.4%
Total Costs, Expenses & Net Income	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

July 2011 GAAP Versus Net Proceeds

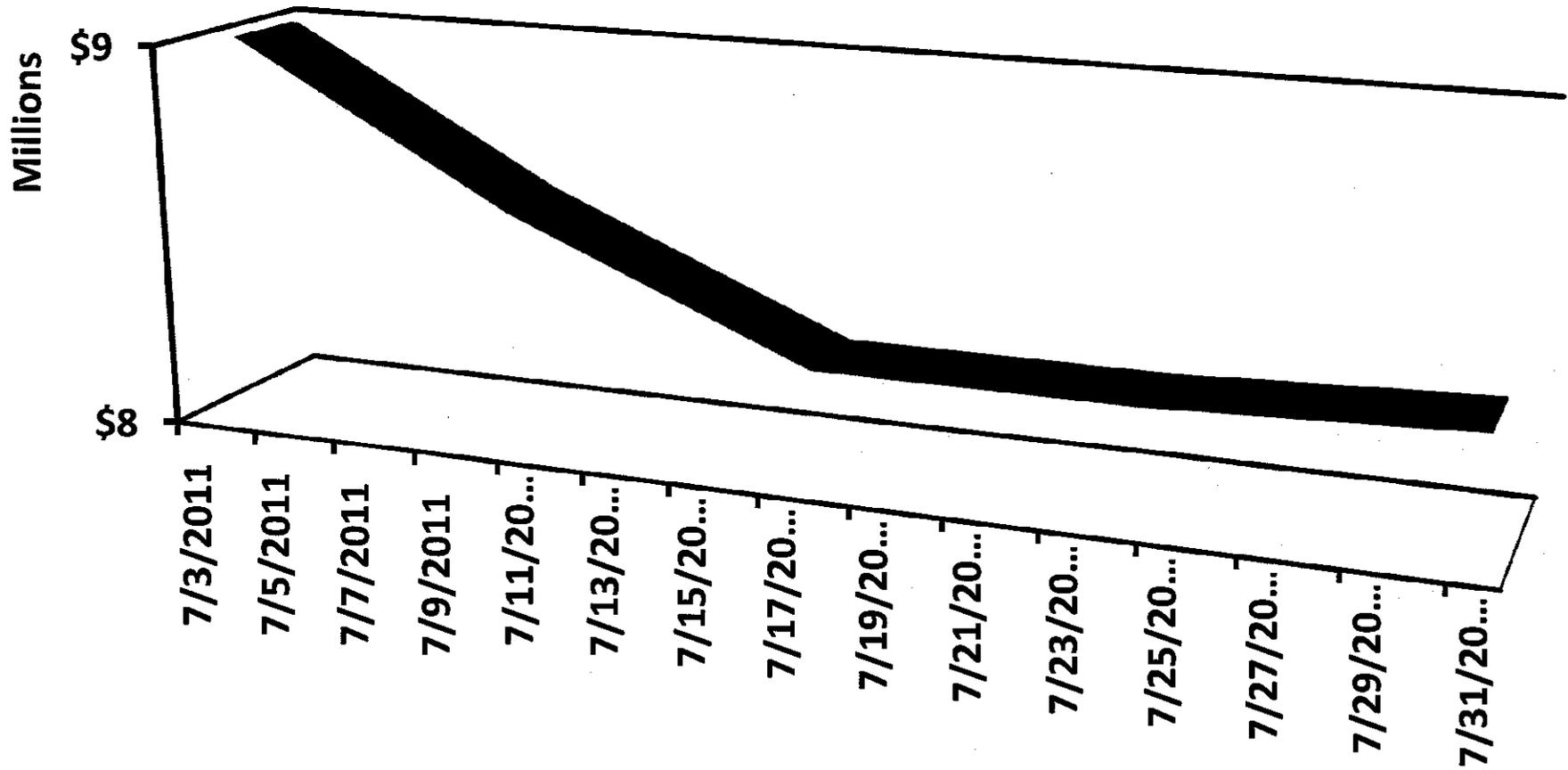
GAAP Basis Net Income		\$ 6,652,006
Add: Depreciation	\$ 15,180	
Change in Instant Activations Not Settled	<u>\$ 1,812,755</u>	\$ 1,827,935
Deduct: Change In Cash Prizes Paid	\$ 1,313,812	
Fidelity Fund Reserve	\$ 200	
MUSL Reserve	<u>\$ 19,826</u>	<u>\$ 1,333,838</u>
Net Proceeds Transfer		\$ 7,146,103
Budgeted Net Transfer For July		<u>\$ 7,760,277</u>
July Budgeted Shortfall		<u>\$ 614,174</u>

The Lottery Dollar
Year Ended July 31, 2011
(Unaudited)
Total Revenues \$ 36.1



Weekly Sales Trend

7/01/11 – 07/31/11



FY 12 Revised Budget Versus 25% Net Income Target

	Best Case Scenario 25%	Best Case Scenario 25%	Worst Case Scenario 25%	Worst Case Scenario 25%	Revised Budget 21.5%	Revised Budget 21.5%
	Sales	Percent of Sales	Sales	Percent of Sales	Sales	Percent of Sales
Instant	\$ 256,565,409	71%	\$ 256,565,409	78%	\$ 379,600,000	83%
Online	\$ 104,794,322	29%	\$ 73,904,362	22%	\$ 79,697,500	17%
Total	\$ 361,359,731	100%	\$ 330,469,771	100%	\$ 459,297,500	100%
Net	\$ 90,339,933		\$ 82,617,443		\$ 98,976,263	
GAAP To Cash	\$ 3,772,487		\$ 3,772,487		\$ 3,772,487	
Net Transfers	\$ 94,12,420		\$ 86,389,930		\$ 102,748,750	

Arkansas Lottery Commission
Detailed Schedule of General and Administrative Expenses
For the Seven Months Ending January 31, 2011 Annualized

	GL#-Cost Center	Current Month	Prior Month	Year to Date	Annualized	2012 Budget	Comments
Office Lease & Improvements	5750-E-00-00000	30,949.08	30,949.08	221,255.11	379,294.47	385,000.00	Little Rock office including rent increases
Jonesboro Lease & Office expen	5751-A-AT-00000	2,478.65	2,563.61	17,302.64	29,661.67	32,000.00	Lease plus utilities
Springdale Lease & Office expe	5753-A-AT-00000	2,894.04	2,513.12	18,192.31	31,186.82	32,000.00	Lease plus utilities
Camden Lease & Office expense	5754-A-AT-00000	2,276.04	1,419.79	10,502.32	18,003.98	22,000.00	Lease plus utilities
Office Parking	5755-E-00-00000	288.10	1,631.94	8,276.55	14,188.37	15,000.00	
Retailer background checks	5760-G-GE-00000	412.50	453.75	3,465.00	5,940.00	7,500.00	
Equipment-Low Value	5810-A-00-10000	0.00	0.00	11,844.79	20,305.35	25,000.00	estimate for admin.
Equipment-Low Value	5810-G-00-10000	1,943.74	0.00	1,943.74	3,332.13	25,000.00	estimate for gaming
Equipment Lease	5830-A-00-10000	711.65	1,899.38	7,990.60	13,698.17	15,000.00	copiers and postage machine
Equipment Lease	5830-E-00-10000	809.80	0.00	4,288.61	7,351.90	9,200.00	marketing equipment
Maintenance & Repairs	5840-A-00-10000	841.03	841.03	3,498.12	5,996.78	7,500.00	
Lottery Vehicle expenses	5845-G-00-10000	1,789.05	650.42	6,726.58	11,531.28	15,000.00	gas, oil, maintenance
Postage & Freight	5850-A-00-10000	454.60	1,929.24	7,986.10	13,690.46	16,000.00	
Postage & Freight	5850-G-00-10000	95.96	0.00	4,869.26	8,347.30	10,000.00	
Office Supplies & Expense	5855-A-00-10000	5,163.04	16,754.03	72,090.74	123,584.13	150,000.00	mostly office supplies from local vendors
Office Supplies & Expense	5855-E-00-10000	29.87	0.00	499.53	856.34	1,500.00	
Office Supplies & Expense	5855-G-00-10000	1,291.16	0.00	2,952.95	5,062.20	10,000.00	
Data Processing supplies	5870-A-00-10000	0.00	3,483.00	3,483.00	5,970.86	10,000.00	
Software Costs	5870-A-00-20000	2,133.85	7,868.32	10,158.17	17,414.01	55,000.00	
Telephone	5880-A-00-10000	21,372.84	20,441.01	132,296.30	226,793.66	300,000.00	paid to DIS
Mobil Telephones	5881-A-00-00000	2,921.82	6,647.45	35,049.57	60,084.98	60,000.00	Cell phones and air cards
Travel and Mileage expense	5905-A-00-10000	0.00	0.00	43.70	74.91	75.00	
Travel and Mileage expense	5905-A-AC-10000	0.00	0.00	1,338.84	2,295.15	1,250.00	
Travel and Mileage expense	5905-A-AH-10000	0.00	11.84	1,664.26	2,853.02	1,500.00	
Travel and Mileage expense	5905-A-AI-10000	0.00	165.48	1,095.44	1,877.90	1,000.00	
Travel and Mileage expense	5905-A-AT-10000	244.59	0.00	2,136.88	3,663.22	1,900.00	
Travel and Mileage expense	5905-E-00-10000	0.00	(89.44)	1,182.48	2,027.11	1,000.00	
Travel and Mileage expense	5905-E-EA-10000	0.00	202.02	5,723.05	9,810.94	5,000.00	
Travel and Mileage expense	5905-G-00-10000	0.00	(328.96)	5,924.38	10,156.08	5,100.00	
Travel and Mileage expense	5905-G-GA-10000	163.21	17.02	2,037.27	3,492.46	1,800.00	
Travel and Mileage expense	5905-G-GE-10000	327.74	67.47	3,831.05	6,567.51	3,400.00	
Travel and Mileage expense	5905-G-GI-10000	0.00	0.00	779.17	1,335.72	750.00	
Travel and Mileage expense	5905-G-GL10000	0.00	(127.36)	685.43	1,175.02	650.00	

Arkansas Lottery Commission
Detailed Schedule of General and Administrative Expenses
For the Seven Months Ending January 31, 2011 Annualized

	GL#-Cost Center	Current Month	Prior Month	Year to Date	Annualized	2012 Budget	Comments
Travel and Mileage expense	5905-G-GS-10000	15,821.73	18,933.14	128,229.52	219,822.03	220,000.00	assumes no increase in mileage rate
Travel and Mileage expense	5905-I-IA-10000	191.14	216.28	1,833.44	3,143.04	1,600.00	
Commission Travel and Mileage	5910-E-EC-10000	212.26	532.17	3,684.54	6,316.35	6,500.00	
Dues and Memberships	5915-A-00-10000	150.00	0.00	2,062.00	3,534.86	3,600.00	
Dues and Memberships	5915-A-AC-10000	270.00	505.30	775.30	1,329.09	1,500.00	
Dues and Memberships	5915-A-AH-10000	0.00	0.00	2,021.00	3,464.57	3,500.00	
Dues and Memberships	5915-A-MB-10000	1,204.00	150.00	7,854.00	13,464.00	15,000.00	
Dues and Memberships	5915-E-00-10000	0.00	0.00	16,205.00	27,780.00	30,000.00	
Dues and Memberships	5915-G-GL-10000	0.00	2,000.00	2,000.00	3,428.57	3,600.00	
Dues and Memberships	5915-I-IA-10000	415.00	0.00	815.00	1,397.14	1,500.00	
Education and Training	5917-A-AC-10000	180.00	774.00	5,372.00	9,209.14	10,000.00	
Education and Training	5917-A-AH-10000	0.00	0.00	1,504.95	2,579.91	5,000.00	
Education and Training	5917-A-AI-10000	0.00	0.00	100.00	171.43	5,000.00	
Education and Training	5917-A-AT-10000	0.00	0.00	254.00	435.43	5,000.00	
Education and Training	5917-A-MB-10000	0.00	300.00	2,300.00	3,942.86	5,000.00	
Education and Training	5917-G-GL-10000	146.20	0.00	1,646.20	2,822.06	5,000.00	
Education and Training	5917-I-IA-10000	0.00	0.00	125.00	214.29	10,000.00	
Property Insurance	5925-A-00-10000	0.00	0.00	5,119.00	8,775.43	10,000.00	Office equipment and automobiles
Liability Insurance	5930-A-00-10000	4,076.33	0.00	4,076.33	6,987.99	10,000.00	Fidelity Bond premium \$9,000
Liability Insurance	5930-E-00-10000	0.00	0.00	8,841.00	15,156.00	50,000.00	Directors and Officers liability annual premium \$49,000
Finance division expenditures	5990-A-AC-10000	43.00	0.00	556.00	953.14	1,000.00	
IT division expenditures	5990-A-AI-10000	0.00	0.00	97.93	167.88	1,000.00	
Treasury division expenditures	5990-A-AT-10000	60.00	0.00	70.00	120.00	500.00	
Minority Business recruiting	5990-A-MB-10000	0.00	510.00	2,870.00	4,920.00	5,000.00	
Commission Meeting expenses	5990-E-EC-10000	113.44	0.00	1,465.61	2,512.47	2,500.00	
Gaming Sales division expenditures	5990-G-GE-10000	0.00	0.00	27.75	47.57	100.00	
Additional Peachtree Services						4,000.00	
					1,390,319.16	1,642,025.00	

**Arkansas Lottery Commission
Budget Detail Schedules
For the Fiscal Year Ending June 30, 2012**

	<u>2010 Audited</u>	<u>%</u>	<u>2011 Budgeted</u>	<u>%</u>	<u>2012 Budgeted</u>	<u>%</u>	<u>Explanation for Change in Budget Amounts</u>
Operating Revenues:							
Instant Games	\$ 335,487,156	87.2%	\$ 374,125,000	80.4%	\$ 379,600,000	82.5%	Instant Game sales are stronger than originally projected.
OnLine Games	\$ 48,211,299	12.5%	\$ 90,106,000	19.4%	\$ 79,697,500	17.3%	OnLine Game sales are weaker than originally projected.
Retailer application, fidelity	\$ 867,023	0.2%	\$ 1,167,700	0.3%	\$ 555,000	0.1%	Retailer communication fee reduced from \$10 per week to \$5 per week
Non Gaming Revenue	\$ 5,650	0.0%	\$ 0	0.0%	\$ 4,000	0.0%	Rebates from other state agencies for purchase discounts and also from legal restitutions
Total Operating Revenues	\$ 384,571,128	100.0%	\$ 465,398,700	100.0%	\$ 459,856,500	100.0%	
Operating Expenses:							
Instant Game Prizes	\$ 224,341,940	58.3%	\$ 254,366,260	54.7%	\$ 256,230,000	55.7%	Increased Instant Game sales resulted in more prizes being awarded.
On-Line Game Prizes	\$ 23,381,100	6.1%	\$ 44,731,851	9.6%	\$ 40,743,000	8.9%	Reduction in OnLine Game Prizes due primarily to lower OnLine Game Revenues.
Retailer Commissions	\$ 21,578,603	5.6%	\$ 26,112,994	5.6%	\$ 25,720,660	5.6%	No change in percentage paid to retailer. Lower budget amount due to lower overall revenues.
Gaming Contract Costs	\$ 20,448,694	5.3%	\$ 19,604,410	4.2%	\$ 23,424,173	5.1%	No change in percentage paid to gaming vendors. Higher budget amount due to change in accounting method for Points for Prizes.
Staff Compensation & Benefits	\$ 6,118,300	1.6%	\$ 6,500,000	1.4%	\$ 6,780,000	1.5%	Governor approved COLA and Merit raises in Jan 2011. APERS rate increased from 11% to 13.46%
Marketing, Advertising & Promotions	\$ 4,352,303	1.1%	\$ 5,000,000	1.1%	\$ 4,500,000	1.0%	Approx. 1% of sales
General and administrative expenses	\$ 1,841,340	0.5%	\$ 2,539,000	0.5%	\$ 1,642,025	0.4%	2011 Budget had non-recurring start up expenses that have been eliminated in the 2012 budget.
Services Provided by Other Agencies	\$ 278,349	0.1%	\$ 922,200	0.2%	\$ 1,415,280	0.3%	ADHE admin expenses are expected to be \$588,280 higher than amount budgeted for in 2011.
Legal and Professional Services	\$ 115,862	0.0%	\$ 316,000	0.1%	\$ 430,100	0.1%	Estimated cost for year end and 60 day audits from Legislative Audit. Increased cost due to 60 day audits.
Capital asset depreciation	\$ 122,643	0.0%	\$ 245,000	0.1%	\$ 215,000	0.0%	2011 budgeted expenditures for capital assets did not occur resulting in lower depreciation.
Total Operating Expenses	\$ 302,579,134	78.7%	\$ 360,359,715	77.4%	\$ 361,100,237	78.5%	
Operating Income	\$ 81,991,994	21.3%	\$ 105,038,985	22.6%	\$ 98,756,263	21.5%	
Non-Operating Revenue (Expense):							
Interest Income	\$ 181,807	0.0%	\$ 137,500	0.0%	\$ 220,000	0.0%	Based upon an average balance of \$40 million at 55 basis points
Income before Transfers	\$ 82,173,801	21.4%	\$ 105,176,485	22.6%	\$ 98,976,263	21.5%	
Transfers To:							
Arkansas Department to Health	(\$ 200,000)	-0.1%	(\$ 200,000)	0.0%	(\$ 200,000)	0.0%	
Arkansas Department of Higher Education (Net Proceeds)	(\$ 82,799,809)	-21.5%	(\$ 104,976,485)	-22.6%	(\$ 102,748,750)	-22.2%	
Change in Net Assets	(\$ 826,008)		\$ 0		(\$ 3,972,488)		

Arkansas Lottery Commission
Sales and Cost of Sales
For the Fiscal Year Ending June 30, 2012

BUDGET 2012

	Instant Game	Fast Play	CASH 3	CASH 4	Decades of Dollars	Raffle	POWERBALL	MEGAMILLIONS	Retailer fees	Total
Sales -settlements	\$ 374,600,000.00	\$ 5,000,000.00	\$ 5,475,000.00	\$ 3,285,000.00	\$ 9,125,000.00	\$ 3,412,500.00	\$ 38,500,000.00	\$ 21,900,000.00	\$ 555,000.00	\$ 459,852,500.00
Cash Prize expense	\$ (252,855,000.00)	\$ (3,375,000.00)	\$ (2,737,500.00)	\$ (1,642,500.00)	\$ (5,018,750.00)	\$ (1,705,250.00)	\$ (18,250,000.00)	\$ (11,388,000.00)		\$ (296,973,000.00)
Gross Profit	\$ 121,745,000.00	\$ 1,625,000.00	\$ 2,737,500.00	\$ 1,642,500.00	\$ 4,106,250.00	\$ 1,706,250.00	\$ 18,250,000.00	\$ 10,512,000.00	\$ 555,000.00	\$ 162,879,500.00
Gross Profit %	32.50%	32.50%	50.00%	50.00%	45.00%	50.00%	50.00%	48.00%		35.42%

Unclaimed Prizes	\$ 5,619,000.00	\$ 75,000.00	\$ 27,375.00	\$ 16,425.00	\$ 45,625.00	\$ 17,062.50	\$ 182,500.00	\$ 109,500.00		\$ 6,092,487.50	
Gross Profit from Games										\$ 162,879,500.00	
Other Cost of Sales:										\$ (2,500,000.00) unclaimed used for operations	
Retailer sales commissions	\$ 23,156,841.52	5.04%								\$ -	unclaimed carryover
Retailer incentives & cashing commissions	\$ 2,563,818.05	0.86%								\$ -	from unclaimed prizes
Instant Game Ticket Fee	\$ 6,330,866.48	1.69%								\$ 3,592,487.50	Addition to Net Proceeds
Other Instant Game Contract Costs	\$ 5,733,345.04	1.53%	Includes Points for Prizes to be consistent with DLA								
On-line Game Contract Costs	\$ 11,259,961.31	2.45%									
MUSL Admin fee	\$ 100,000.00										
Total Other Cost of sales	\$ 49,144,832.39										
Total Gross Profit										\$ 113,734,667.61	

BUDGET 2011

	Instant Game	Fast Play	CASH 3	CASH 4	Raffle	POWERBALL	MEGAMILLIONS	Retailer fees	Total
Sales	\$ 374,125,000.00	\$ -	\$ 10,140,000.00	\$ 4,056,000.00	\$ 10,000,000.00	\$ 50,700,000.00	\$ 15,210,000.00	\$ 1,167,700.00	\$ 465,398,700.00
Prize expense	\$ (261,887,500.00)	\$ -	\$ (5,070,000.00)	\$ (2,028,000.00)	\$ (6,000,000.00)	\$ (25,350,000.00)	\$ (7,605,000.00)		\$ (307,940,500.00)
Unclaimed Prizes	\$ 7,499,239.91	\$ -	\$ -	\$ -	\$ -	\$ 1,016,268.53	\$ 304,880.56		\$ 8,820,389.00
Gross Profit	\$ 119,736,739.91	\$ -	\$ 5,070,000.00	\$ 2,028,000.00	\$ 4,000,000.00	\$ 26,366,268.53	\$ 7,909,880.56	\$ 1,167,700.00	\$ 166,278,589.00
Gross Profit %	32.00%		50.00%	50.00%	40.00%	52.00%	52.00%		35.73%

Gross Profit from Games										\$ 166,278,589.00	
Other Cost of Sales:											
Retailer sales commissions	\$ 23,211,550.00	5.06%									
Retailer incentives & cashing commissions	\$ 2,901,444.00	0.98%									
Instant Game Ticket Fee	\$ 8,230,750.00	2.20%									
Other Instant Game Contract Costs	\$ -	0.00%	Did not include Points for Prizes in original budget								
On-line Game Contract Costs	\$ 11,373,660.00	2.45%									
MUSL Admin fee	\$ -										
Total Other Cost of sales	\$ 45,717,404.00										
Total Gross Profit										\$ 120,561,185.00	

Arkansas Lottery Commission
 Compensation & Benefits
 Budget 2012

13.46%

Employee	Budgeted		Career		Race	Annual Tax	Annual APERS	Total Comp and Benefits
	Gross	Grades	Position Title	Grades				
Angela D. Meredith	\$ 41,017.60	ACT-C115	Security Spec		BF	\$ 2,926.30	\$ 5,520.97	
Anita J. Junior	\$ 62,108.80	C128	QA System Analyst		BF	\$ 4,674.80	\$ 8,359.84	
Audra L. McCaskill	\$ 45,240.00	C122	Claims Mgr		BF	\$ 3,268.46	\$ 6,089.30	
Crystal D. Thomas	\$ 27,768.00	C112	Claims Asst		BF	\$ 2,021.76	\$ 3,737.57	
Dean E. Heard	\$ 40,414.40	C120	Marketing Rep		BF	\$ 2,996.24	\$ 5,439.78	
Demetria P. King-Roberts	\$ 44,886.40	C122	Accountant		BF	\$ 3,331.38	\$ 6,041.71	
Ernestine Middleton	\$ 225,659.20	N922	VP Administration		BF	\$ 13,803.14	\$ 30,373.73	
Felicia R. Morehead	\$ 27,768.00	C112	Claims Asst		BF	\$ 2,013.70	\$ 3,737.57	
Kia P. Webb	\$ 36,982.40	C113	Admin Support Supv		BF	\$ 2,595.84	\$ 4,977.83	
La'Tonyalyn K. White	\$ 41,017.60	C120	Marketing Rep		BF	\$ 2,926.30	\$ 5,520.97	
Rosalynn R. Bogard	\$ 32,136.26	C115	Licensing Spec		BF	\$ 2,363.14	\$ 4,325.54	
Shaunta L. Hudson	\$ 46,592.00	C122	Accountant		BF	\$ 3,564.08	\$ 6,271.28	
Teresa A. Holloway	\$ 44,886.66	C122	Accountant		BF	\$ 3,241.16	\$ 6,041.74	
Tewanda R. Kinchen	\$ 22,590.10	C110	Postal Courier		BF	\$ 1,632.80	\$ 3,040.63	
Undrea Ellis	\$ 49,691.20	C122	Accountant		BF	\$ 3,677.44	\$ 6,688.44	
Whitnie L. Hall	\$ 41,704.00	C112	Auditor		BF	\$ 3,068.00	\$ 5,613.36	
Charles E. Freeman	\$ 40,726.40	C120	Marketing Rep		BM	\$ 2,968.16	\$ 5,481.77	
Henry B. Gilmore Jr	\$ 52,353.60	C125	It Comm/App. Support Spec		BM	\$ 3,978.00	\$ 7,046.79	
Ivan N. Hudson	\$ 66,289.60	N901	SMB Project Coordinator		BM	\$ 4,971.46	\$ 8,922.58	
Position Vacant	\$ 64,177.88	C125	IT Project Mgr		BM	\$ 4,806.88	\$ 8,638.34	
Mark D. Hearn	\$ 66,289.60	N901	Regional Sales Mgr		BM	\$ 4,630.86	\$ 8,922.58	
Merrill M. Forte	\$ 40,726.40	C120	Marketing Rep		BM	\$ 2,473.38	\$ 5,481.77	
Remmele E. Mazzyck	\$ 76,502.40	N904	Security Deputy		BM	\$ 5,757.18	\$ 10,297.22	
Amber C. Tyler	\$ 46,966.66	C114	Sr Graphic Spec		CF	\$ 3,497.78	\$ 6,321.71	
Carolyn A. Cabell	\$ 76,502.40	N904	Product Dev Director		CF	\$ 5,757.18	\$ 10,297.22	
Cindy L. Carlock	\$ 41,017.60	C120	Marketing Rep		CF	\$ 2,720.38	\$ 5,520.97	
Cynthia L. Burnett	\$ 44,886.40	C122	Claims Mgr		CF	\$ 3,338.66	\$ 6,041.71	
Debbie M. Stobaugh	\$ 41,017.60	C120	Marketing Rep		CF	\$ 3,042.52	\$ 5,520.97	
Donna C. Brooks	\$ 27,560.00	C112	Claims Asst		CF	\$ 2,013.18	\$ 3,709.58	
Elizabeth L. Arnold	\$ 34,923.46	C117	Promotions & Special Events		CF	\$ 2,569.06	\$ 4,700.70	
Gillis B. Ward	\$ 14,107.60	C121	PT Draw Mgr		CF	\$ 1,079.26	\$ 1,898.88	
Gwen N. Armbrust	\$ 41,329.86	C120	Payroll Specialist		CF	\$ 3,059.16	\$ 5,563.00	
Joanna M. Buntan	\$ 65,832.00	N906	Advertising/Marketing Director		CF	\$ 5,035.94	\$ 8,860.99	
Julie A. Baldridge	\$ 107,099.20	N909	Executive Asst		CF	\$ 8,101.60	\$ 14,415.55	
Linda G. Chambers	\$ 41,017.60	C120	Marketing Rep		CF	\$ 3,014.70	\$ 5,520.97	
Lindsey E. Teague	\$ 28,725.06	C113	Security Support Spec		CF	\$ 2,094.82	\$ 3,866.39	
Lisa Tater	\$ 66,289.60	N901	Regional Sales Mgr		CF	\$ 4,975.88	\$ 8,922.58	
Position Vacant	\$ 107,099.20	N912	Info Technical Director		CF	\$ 7,998.38	\$ 14,415.55	
Paula K. O'Brien	\$ 27,768.26	C112	Claims Asst		CF	\$ 2,124.46	\$ 3,737.61	
Rebecca L. Clark	\$ 44,886.40	C122	Claims Mgr		CF	\$ 2,968.68	\$ 6,041.71	
Rhonda L. Harris	\$ 41,017.60	C120	Marketing Rep		CF	\$ 3,042.52	\$ 5,520.97	
Susan D. Chamberlain	\$ 34,153.60	C112	Admin Support Spec		CF	\$ 2,464.02	\$ 4,597.07	
Susan D. Devecki	\$ 41,017.60	C120	Marketing Rep		CF	\$ 3,033.94	\$ 5,520.97	
Valerie N. Basham	\$ 65,832.00	C130	HR Director		CF	\$ 4,940.78	\$ 8,860.99	
Wendi R. Nix	\$ 44,886.40	C120	Claims Mgr		CF	\$ 3,425.76	\$ 6,041.71	
Andrew J. Biernat	\$ 41,017.60	C120	Marketing Rep		CM	\$ 3,042.52	\$ 5,520.97	
Bob C. Coleman Jr	\$ 30,596.80	ACT-C112	Admin Support Spec		CM	\$ 2,245.36	\$ 4,118.33	
Christopher M. Pabin	\$ 29,161.60	C113	IT computer Operator		CM	\$ 2,135.64	\$ 3,925.15	
David M. Barden	\$ 225,659.20	C922	VP Gaming Operations		CM	\$ 16,765.06	\$ 30,373.73	
Don S. Smith	\$ 41,017.60	C120	Marketing Rep		CM	\$ 3,137.94	\$ 5,520.97	
Donald R. Cassil	\$ 40,726.40	C120	Marketing Rep		CM	\$ 3,013.14	\$ 5,481.77	
Ernest L. Passailaigue Jr	\$ 330,470.40	ACT-Q145L	Executive Director		CM	\$ 24,898.38	\$ 19,440.95	
Frederick M. Dunavant	\$ 41,017.60	C120	Marketing Rep		CM	\$ 3,137.94	\$ 5,520.97	
James H. Springer	\$ 14,764.88	C121	PT Draw Mgr		CM	\$ 1,129.44	\$ 1,987.35	
James R. Lee Jr	\$ 29,489.20	C115	Licensing Mgr		CM	\$ 2,160.60	\$ 3,969.25	
Jeffery C. Fitch	\$ 40,726.40	C120	Marketing Rep		CM	\$ 3,013.14	\$ 5,481.77	
Jeremy K. Smith	\$ 68,328.00	C130	Network Engineer		CM	\$ 5,112.90	\$ 9,196.95	
Kenneth K. McCarthy	\$ 81,598.40	N904	Sales Training & Retail Coord		CM	\$ 5,876.52	\$ 10,983.14	
Lance T. Huey	\$ 115,648.00	N910	Security Director		CM	\$ 8,622.64	\$ 15,566.22	
Matthew D. Johnson	\$ 35,692.80	C112	Production Coordinator		CM	\$ 2,635.10	\$ 4,804.25	
Michael C. Smith	\$ 153,004.80	N919	IT Gaming Director		CM	\$ 11,274.38	\$ 20,594.45	
Michael F. Hyde	\$ 120,868.80	Q146U	Internal Auditor		CM	\$ 8,710.00	\$ 16,268.94	
Michael J. Taylor	\$ 37,731.20	C112	Animator		CM	\$ 2,791.36	\$ 5,078.62	
Position Vacant	\$ 56,097.86	C121	HR Generalists		CF	\$ 4,196.14	\$ 7,550.77	
Molly K. Harris	\$ 40,726.40	C120	Marketing Rep		CF	\$ 3,013.14	\$ 5,481.77	
Patricia D. Vick	\$ 54,974.40	C126	Business Mgr/Paralegal		CF	\$ 4,091.36	\$ 7,399.55	
Philip W. Miley	\$ 80,662.40	N910	Chief Fiscal Officer		CM	\$ 5,976.62	\$ 10,857.16	
Richard F. Roeben	\$ 36,088.00	C112	Claims Asst		CM	\$ 2,646.54	\$ 4,857.44	
Rick G. Conrad	\$ 41,017.60	C120	Marketing Rep		CM	\$ 3,124.68	\$ 5,520.97	
Robert B. Stebbins	\$ 94,369.60	N910	Sales Director		CM	\$ 6,762.34	\$ 12,702.15	
Position Vacant	\$ 41,017.60	C120	Security Specialists		CM	\$ 3,067.74	\$ 5,520.97	
Samuel L. Burks	\$ 68,830.40	C130	Sr Data Base Admin		CM	\$ 4,935.58	\$ 8,995.37	
Samuel W. Tatom Jr	\$ 41,017.60	C120	Marketing Rep		CM	\$ 3,042.52	\$ 5,520.97	

Arkansas Lottery Commission
 Compensation & Benefits
 Budget 2012

13.46%

Employee	Budgeted		Career		Race	Annual Tax	Annual APERS	Total Comp and Benefits
	Gross	Grades	Position Title					
Stephen L. Koch	\$ 40,788.80	C117	Copy Editor		CM	\$ 3,113.24	\$ 5,490.17	
Terry L. Williams	\$ 56,929.86	C122	Accountant		CM	\$ 4,355.26	\$ 7,662.76	
Timothy A. Parrish	\$ 71,697.60	N903	Treasurer		CM	\$ 5,252.78	\$ 9,650.50	
Tyler L. Pate	\$ 67,288.00	C128	IT Security Analyst		CM	\$ 5,147.74	\$ 9,056.96	
William B. Woosley	\$ 107,099.20	N910	Chief Legal Counsel		CM	\$ 7,771.14	\$ 14,415.55	
William P. Lawson	\$ 44,553.60	C122	Accountant/Collections Mgr		CM	\$ 3,312.92	\$ 5,996.91	
William W. Cotton	\$ 41,017.60	C120	Marketing Rep		CM	\$ 3,042.52	\$ 5,520.97	
Ali K. Mustafa	\$ 41,017.60	C120	Marketing Rep		CM	\$ 3,023.54	\$ 5,520.97	
Robert L. Smith	\$ 40,414.40	C120	Marketing Rep		OM	\$ 3,091.66	\$ 5,439.78	
Ana M. Rodriguez	\$ 31,907.20	ACT-C115	Licensing Spec		OM	\$ 2,345.72	\$ 4,294.71	
Clifton C. Rassmann	\$ 66,788.80	C128	QA System Analyst		OM	\$ 4,815.52	\$ 8,989.77	
	\$ 4,961,288.80					\$ 363,619.88	\$ 642,749.11	\$ 5,967,657.79

Employer Health Premium	\$ 360,000.00
Other Post Employment Benefits	\$ 230,000.00
Unfilled/new positions	\$ 211,000.00
Career Service bonuses	\$ 6,321.00
subtotal	\$ 6,774,978.79
TOTAL COMP AND BENEFITS	\$ 6,780,000.00
	Use for Budget

BF=black female	16	
BM=black male	7	23
CF=caucasian female	25	
CM=caucasian male	33	58
OM=other minority	3	3
	<u>84</u>	<u>84</u>

Arkansas Lottery Commission
Detailed Schedule of General and Administrative Expenses
For the Seven Months Ending January 31, 2011 Annualized

	GL#-Cost Center	Current Month	Prior Month	Year to Date	Annualized	2012 Budget	Comments
Office Lease & Improvements	5750-E-00-00000	30,949.08	30,949.08	221,255.11	379,294.47	385,000.00	Little Rock office including rent increases
Jonesboro Lease & Office expen	5751-A-AT-00000	2,478.65	2,563.61	17,302.64	29,661.67	32,000.00	Lease plus utilities
Springdale Lease & Office expe	5753-A-AT-00000	2,894.04	2,513.12	18,192.31	31,186.82	32,000.00	Lease plus utilities
Camden Lease & Office expense	5754-A-AT-00000	2,276.04	1,419.79	10,502.32	18,003.98	22,000.00	Lease plus utilities
Office Parking	5755-E-00-00000	288.10	1,631.94	8,276.55	14,188.37	15,000.00	
Retailer background checks	5760-G-GE-00000	412.50	453.75	3,465.00	5,940.00	7,500.00	
Equipment-Low Value	5810-A-00-10000	0.00	0.00	11,844.79	20,305.35	25,000.00	estimate for admin.
Equipment-Low Value	5810-G-00-10000	1,943.74	0.00	1,943.74	3,332.13	25,000.00	estimate for gaming
Equipment Lease	5830-A-00-10000	711.65	1,899.38	7,990.60	13,698.17	15,000.00	copiers and postage machine
Equipment Lease	5830-E-00-10000	809.80	0.00	4,288.61	7,351.90	9,200.00	marketing equipment
Maintenance & Repairs	5840-A-00-10000	841.03	841.03	3,498.12	5,996.78	7,500.00	
Lottery Vehicle expenses	5845-G-00-10000	1,789.05	650.42	6,726.58	11,531.28	15,000.00	gas, oil, maintenance
Postage & Freight	5850-A-00-10000	454.60	1,929.24	7,986.10	13,690.46	16,000.00	
Postage & Freight	5850-G-00-10000	95.96	0.00	4,869.26	8,347.30	10,000.00	
Office Supplies & Expense	5855-A-00-10000	5,163.04	16,754.03	72,090.74	123,584.13	150,000.00	mostly office supplies from local vendors
Office Supplies & Expense	5855-E-00-10000	29.87	0.00	499.53	856.34	1,500.00	
Office Supplies & Expense	5855-G-00-10000	1,291.16	0.00	2,952.95	5,062.20	10,000.00	
Data Processing supplies	5870-A-00-10000	0.00	3,483.00	3,483.00	5,970.86	10,000.00	
Software Costs	5870-A-00-20000	2,133.85	7,868.32	10,158.17	17,414.01	55,000.00	
Telephone	5880-A-00-10000	21,372.84	20,441.01	132,296.30	226,793.66	300,000.00	paid to DIS
Mobil Telephones	5881-A-00-00000	2,921.82	6,647.45	35,049.57	60,084.98	60,000.00	Cell phones and air cards
Travel and Mileage expense	5905-A-00-10000	0.00	0.00	43.70	74.91	75.00	
Travel and Mileage expense	5905-A-AC-10000	0.00	0.00	1,338.84	2,295.15	1,250.00	
Travel and Mileage expense	5905-A-AH-10000	0.00	11.84	1,664.26	2,853.02	1,500.00	
Travel and Mileage expense	5905-A-AI-10000	0.00	165.48	1,095.44	1,877.90	1,000.00	
Travel and Mileage expense	5905-A-AT-10000	244.59	0.00	2,136.88	3,663.22	1,900.00	
Travel and Mileage expense	5905-E-00-10000	0.00	(89.44)	1,182.48	2,027.11	1,000.00	
Travel and Mileage expense	5905-E-EA-10000	0.00	202.02	5,723.05	9,810.94	5,000.00	
Travel and Mileage expense	5905-G-00-10000	0.00	(328.96)	5,924.38	10,156.08	5,100.00	
Travel and Mileage expense	5905-G-GA-10000	163.21	17.02	2,037.27	3,492.46	1,800.00	
Travel and Mileage expense	5905-G-GE-10000	327.74	67.47	3,831.05	6,567.51	3,400.00	
Travel and Mileage expense	5905-G-GI-10000	0.00	0.00	779.17	1,335.72	750.00	
Travel and Mileage expense	5905-G-GL10000	0.00	(127.36)	685.43	1,175.02	650.00	

Arkansas Lottery Commission
Detailed Schedule of General and Administrative Expenses
For the Seven Months Ending January 31, 2011 Annualized

	GL#-Cost Center	Current Month	Prior Month	Year to Date	Annualized	2012 Budget	Comments
Travel and Mileage expense	5905-G-GS-10000	15,821.73	18,933.14	128,229.52	219,822.03	220,000.00	assumes no increase in mileage rate
Travel and Mileage expense	5905-I-IA-10000	191.14	216.28	1,833.44	3,143.04	1,600.00	
Commission Travel and Mileage	5910-E-EC-10000	212.26	532.17	3,684.54	6,316.35	6,500.00	
Dues and Memberships	5915-A-00-10000	150.00	0.00	2,062.00	3,534.86	3,600.00	
Dues and Memberships	5915-A-AC-10000	270.00	505.30	775.30	1,329.09	1,500.00	
Dues and Memberships	5915-A-AH-10000	0.00	0.00	2,021.00	3,464.57	3,500.00	
Dues and Memberships	5915-A-MB-10000	1,204.00	150.00	7,854.00	13,464.00	15,000.00	
Dues and Memberships	5915-E-00-10000	0.00	0.00	16,205.00	27,780.00	30,000.00	
Dues and Memberships	5915-G-GL-10000	0.00	2,000.00	2,000.00	3,428.57	3,600.00	
Dues and Memberships	5915-I-IA-10000	415.00	0.00	815.00	1,397.14	1,500.00	
Education and Training	5917-A-AC-10000	180.00	774.00	5,372.00	9,209.14	10,000.00	
Education and Training	5917-A-AH-10000	0.00	0.00	1,504.95	2,579.91	5,000.00	
Education and Training	5917-A-AI-10000	0.00	0.00	100.00	171.43	5,000.00	
Education and Training	5917-A-AT-10000	0.00	0.00	254.00	435.43	5,000.00	
Education and Training	5917-A-MB-10000	0.00	300.00	2,300.00	3,942.86	5,000.00	
Education and Training	5917-G-GL-10000	146.20	0.00	1,646.20	2,822.06	5,000.00	
Education and Training	5917-I-IA-10000	0.00	0.00	125.00	214.29	10,000.00	
Property Insurance	5925-A-00-10000	0.00	0.00	5,119.00	8,775.43	10,000.00	Office equipment and automobiles
Liability Insurance	5930-A-00-10000	4,076.33	0.00	4,076.33	6,987.99	10,000.00	Fidelity Bond premium \$9,000
Liability Insurance	5930-E-00-10000	0.00	0.00	8,841.00	15,156.00	50,000.00	Directors and Officers liability annual premium \$49,000
Finance division expenditures	5990-A-AC-10000	43.00	0.00	556.00	953.14	1,000.00	
IT division expenditures	5990-A-AI-10000	0.00	0.00	97.93	167.88	1,000.00	
Treasury divison expenditures	5990-A-AT-10000	60.00	0.00	70.00	120.00	500.00	
Minority Business recruiting	5990-A-MB-10000	0.00	510.00	2,870.00	4,920.00	5,000.00	
Commission Meeting expenses	5990-E-EC-10000	113.44	0.00	1,465.61	2,512.47	2,500.00	
Gaming Sales divison expenditures	5990-G-GE-10000	0.00	0.00	27.75	47.57	100.00	
Additional Peachtree Services						4,000.00	
					1,390,319.16	1,642,025.00	



Initiatives to Enhance Online Game Participation

Arkansas Lottery Commission Meeting
August 15, 2011

Online Games in Arkansas

- ▶ Today approximately 85% of total sales are from instant games.

- ▶ Current online games include:
 - Multi-State Games: Powerball, Mega Millions, Decades of Dollars
 - In-State Games: Cash 3, Cash 4

- ▶ ALC is in the process of surveying other lottery jurisdictions directly and through the North American Association of State and Provincial Lotteries (NASPL).

Factors for Instant Game Success

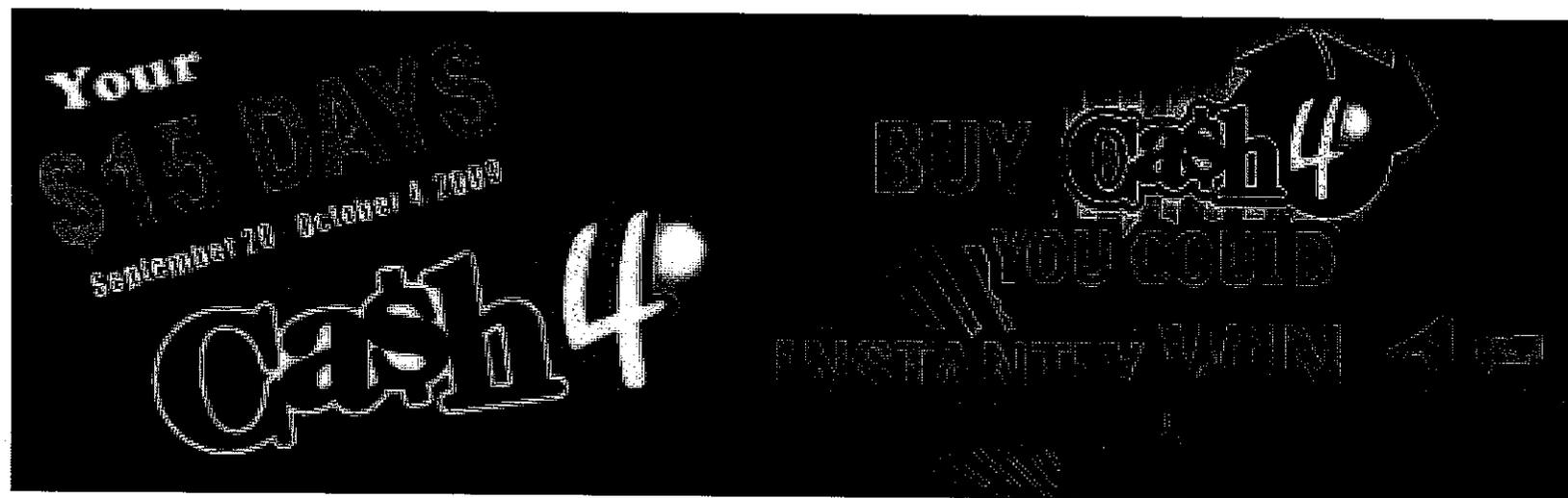
- ▶ Few Major Multi-State Game Jackpots – Jackpots have not been high enough attract players.
- ▶ Instant Game Variety – A wide variety of looks, play styles, and themes provide something for everyone.
- ▶ In-State Winners – Instant tickets are recognized as games where winners are local.
- ▶ Instant Gratification – Players want something immediately – waiting for a drawing delays the value.
- ▶ Promotions – Special promotions offer players more chances to win.
- ▶ Player Rewards – The Points for Prizes player rewards program has been very successful, but was designed initially for instant ticket players only.

Online game promotions would allow ALC to reach out to new and lapsed players through free plays, coupons, and additional prize opportunities.

Sample Promotions from Other States

Georgia – Your \$15 Days Promotion

- ▶ Qualifier: Purchase a Cash 4 ticket.
- ▶ Outcome: On an “Nth” ticket basis, the terminal will print an instantly redeemable \$15 coupon.



Sample Promotions from Other States

Ohio – Pick 3 Redball Promotion

- ▶ **Qualifier:** Purchase a Pick 3 ticket.
- ▶ **Outcome:** A separate draw is held with six white balls and one red ball. If the red ball is drawn, prize payouts increase by about 20%.



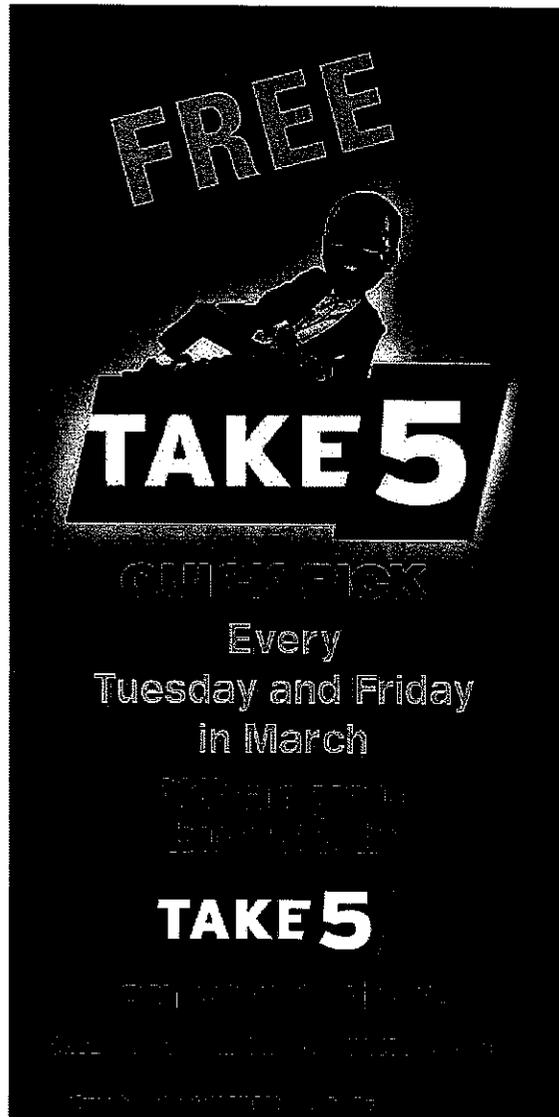
Sample Promotions from Other States

Maryland– Let It Snow Promotion

- ▶ Qualifier: Purchase a Pick 3 ticket.
- ▶ Outcome: After the ticket has been generated, a coupon may print with 1 snowflake (worth \$5), up to 4 snowflakes (worth \$50). The Lottery uses unclaimed prizes to fund the instant-win prizes.



Sample Promotions from Other States



New York – Free Take 5 Promotion

- ▶ Qualifier: Purchase a \$5 or greater Take 5 ticket on Tuesdays or Fridays in March.
- ▶ Outcome: Players receive a free \$1 Take 5 ticket.

Sample Promotions from Other States

New York – Mega Millions Promotion

- ▶ Qualifier: Purchase a \$10 Mega Millions ticket on Tuesdays and Fridays in October.
- ▶ Outcome: Players receive a free \$2 Mega Millions ticket.



Tuesdays & Fridays in October

**BUY \$10
GET \$2 FREE**

Buy \$10 of Mega Millions on one ticket,
get \$2 of Mega Millions quick picks FREE
Tuesdays and Fridays only.

Sample Promotions from Other States

Maine – Powerball with Power Play Promotion

- ▶ **Qualifier:** Purchase a \$10 Powerball with Power Play ticket.
- ▶ **Outcome:** If a trumpet sound plays, the player wins \$10 instantly.

Indiana – Buy 3, Get 1 Free Powerball Promotion

- ▶ **Qualifier:** Purchase 3 or more Power Plays on a single ticket (a \$6 value or greater).
- ▶ **Outcome:** Receive a free Powerball with Power Play ticket (a \$2 value).

Sample Promotions from Other States

Pennsylvania – Mega Millions Low Jackpot Promotion

- ▶ **Goal:** To encourage players to purchase Mega Millions when the jackpot is low.
- ▶ **Qualifier:** Purchase \$10 in Mega Millions with Megaplier during the promotion (2 draws after a jackpot is hit).
- ▶ **Outcome:** Players receive a free Mega Millions with Megaplier ticket.

Sample Promotions from Other States

Iowa – Retailer Promotion

- ▶ **Qualifier:** Purchase a Mega Millions with Megaplier ticket.
- ▶ **Outcome:** Retailers receive a \$500 store credit when they sell the 25,000th, 50,000th, and so on Mega Millions with Megaplier ticket. When one of these tickets is sold, a terminal message indicates which retailer received the bonus.

Potential Applications in Arkansas

Examples:

- ▶ Buy X Get Y: For a limited time, buy a \$2 Cash 3 ticket and get a free \$0.50 Cash 4 play.
- ▶ Nth Ticket Coupon: For every 50th Mega Millions ticket sold, a \$10 instant-win coupon will print.
- ▶ Email Coupons: Members of the online players club would receive an email coupon that they could take to a retailer to get a free Decades of Dollars ticket.



New and enhanced online games would allow ALC to appeal to more players.

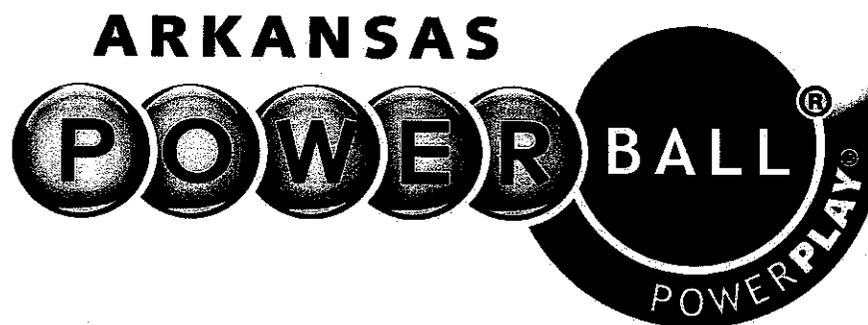
Arkansas 50/50

- ▶ This new \$5 raffle-style game starts October 1, 2011, and is only available in Arkansas.
- ▶ Each ticket has a unique 6-digit number. Tickets are sold sequentially beginning with number 000001.
- ▶ Arkansas 50/50 will pay out 50% of sales as prizes. (75% of prizes will go to one winner and 25% will be divided among 24 winners.)
- ▶ Drawings will be held the first Tuesday of every month.

ARKANSAS
50 50

Powerball 20th Anniversary Changes

- ▶ In January 2012, Powerball will move to a \$2 price point, accompanied by a higher starting jackpot and better odds of winning.
- ▶ ALC will tie the launch of the new and improved Powerball to the addition of online games in the Points for Prizes player loyalty program.

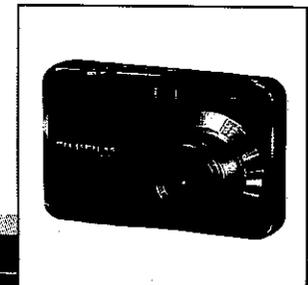
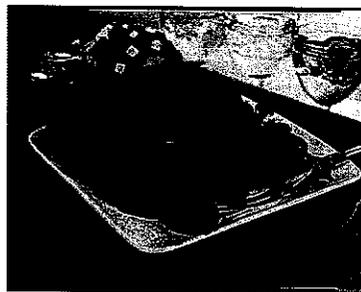
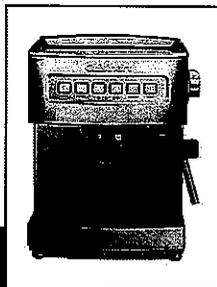
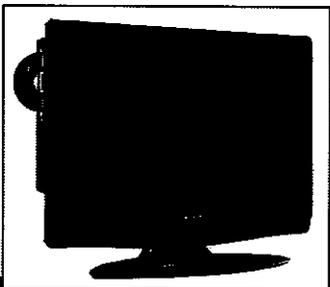


Including online tickets in ALC's thriving loyalty rewards program would add value to online game purchases.

Player Rewards



- ▶ The players club has more than 190,000 registered members. Currently these players can only enter instant tickets.
- ▶ Planning to add online games in January. Each ticket entered on the website will earn rewards points that are redeemable for merchandise.



Player Rewards

- ▶ Player information will allow marketing of online games to existing instant players.
 - Provide players with free-play coupons or similar offers through email.
 - Offer tickets as items in the Points for Prizes online store. Players could redeem their rewards points for free play coupons.

**State of Arkansas
ARKANSAS LOTTERY COMMISSION**

REQUEST FOR QUALIFICATIONS

RFQ Number: ALC-RFQ-110002	Buyer:
Service: Outside Legal Counsel	Submission Opening Date:
Date: _____, 2011	Submission Opening Time:

SUBMISSIONS WILL BE ACCEPTED UNTIL THE TIME AND DATE SPECIFIED ABOVE. THE SUBMISSION ENVELOPE MUST BE SEALED AND SHOULD BE PROPERLY MARKED WITH THE SUBMISSION NUMBER, DATE AND HOUR OF SUBMISSIONS OPENING AND VENDOR'S RETURN ADDRESS. IT IS NOT NECESSARY TO RETURN "NO BIDS" TO THE ARKANSAS LOTTERY COMMISSION.

Vendors are responsible for delivery of their submission to the Arkansas Lottery Commission prior to the scheduled time for opening of the particular submission. When appropriate, Vendors should consult with delivery providers to determine whether the submission will be delivered to the Arkansas Lottery Commission office street address prior to the scheduled time for submission opening. Delivery providers, USPS, UPS, FedEx, and DHL deliver mail to our street address, 124 W. Capitol Avenue, Little Rock, AR 72201, on a schedule determined by each individual provider. These providers will deliver to our offices based solely on our street address.

MAILING ADDRESS: P.O. Box 3238 Little Rock, AR 72203	SUBMISSION OPENING LOCATION: Arkansas Lottery Commission Offices
TELEPHONE NUMBER: (501) 683-2000	

Company Name: _____

Name (type or print): _____

Title: _____

Address: _____

Telephone Number: _____

Fax Number: _____

E-Mail Address: _____

Signature: _____

USE INK ONLY; UNSIGNED SUBMISSIONS WILL NOT BE CONSIDERED

Identification:	*	*
Federal Employer ID Number		Social Security Number

FAILURE TO PROVIDE TAXPAYER IDENTIFICATION NUMBER MAY RESULT IN SUBMISSION REJECTION

Business (check one):	Designation	Individual *	Sole Proprietorship *	Public Service Corp *
		Partnership *	Corporation *	Government/ Nonprofit *

GENERAL DESCRIPTION:	Outside legal counsel services on certain transactions where the need for legal advice is required.
TYPE OF CONTRACT:	Term
BUYER:	
AGENCY P.R. NUMBER	

INVOICE TO: _____ F.O.B: _____

MINORITY-OWNED AND FEMALE-OWNED BUSINESS POLICY
 Participation by minority-owned and female-owned businesses is encouraged in this and all other procurements by state agencies. "Member of a minority" is defined at Arkansas Code Annotated § 23-115-103(15) as "a lawful permanent resident of this state who is: (A) African American; (B) Hispanic American; (C) American Indian; (D) Asian American; or (E) Pacific Islander American". "Minority-owned business" is defined at Arkansas Code Annotated § 23-115-103(16) as "a business that is owned by: (A) An individual who is a member of a minority who reports as his or her personal income for Arkansas income tax purposes the income of the business; (B) A partnership in which a majority of the ownership interest is owned by one (1) or more members of a minority who report as their personal income for Arkansas income tax purposes more than fifty percent (50%) of the income of the partnership; or (C) A corporation organized under the laws of this state in which a majority of the common stock is owned by one (1) or more members of a minority who report as their personal income for Arkansas income tax purposes more than fifty percent (50%) of the distributed earnings of the corporation". The Arkansas Economic Development Commission conducts a certification process for minority businesses. Vendors unable to include minority-owned business as subcontractors "may explain the circumstances preventing minority inclusion".

"Female-owned business" is defined at Arkansas Code Annotated § 23-115-103(5) as "a business: (A) Whose management and daily business operations are under the control of one (1) or more females; and (B) Either: (i) Individually owned by a female who reports as her personal income for Arkansas income tax purposes the income of the business; (ii) Which is a partnership in which a majority of the ownership interest is owned by one (1) or more females who report as their personal income for Arkansas income tax purposes more than fifty percent (50%) of the income of the partnership; or (iii) Which is a corporation organized under the laws of this state in which a majority of the common stock is owned by one (1) or more females who report as their personal income for Arkansas income tax purposes more than fifty percent (50%) of the distributed earnings of the corporation".

EQUAL EMPLOYMENT OPPORTUNITY POLICY
 In compliance with Section 5 of the Arkansas Lottery Commission Major Procurement Rules, the Office of State Procurement of the Department of Finance and Administration is required to have a copy of the Vendor's Equal Opportunity Policy prior to issuing a contract award. EO Policies may be submitted in electronic format to the following email address: eeopolicy.osp@dfa.state.ar.us, or as a hard copy accompanying the solicitation response. The Office of State Procurement and the Arkansas Lottery Commission will maintain a file of all Vendor EO policies submitted in response to solicitations issued by this office. The submission is a one-time requirement but Vendors are responsible for providing updates or changes to their respective policies and of supplying EO policies upon request to other state agencies that must also comply with this statute.

TECHNOLOGY ACCESS FOR THE BLIND

Please reference Section 508 of the Federal Rehabilitation Act, 29 U.S.C. 794d and Arkansas Code Annotated § 25-26-201 et seq. The Vendor expressly acknowledges that State funds may not be expended in connection with the purchase of information technology unless that system meets certain statutory requirements, in accordance with the State of Arkansas technology policy standards, relating to accessibility by persons with visual impairments.

Accordingly, the Vendor represents and warrants to the Arkansas Lottery Commission that the technology provided to the Arkansas Lottery Commission for purchase is capable either by virtue of features included within the technology or because it is readily adaptable by use with other technology of:

- Providing equivalent access for effective use by both visual and non-visual means;
- Presenting information, including prompts used for interactive communications, in formats intended for non-visual use; and
- After being made accessible, it can be integrated into networks for obtaining, retrieving, and disseminating information used by individuals who are not blind or visually impaired.

For purposes of this paragraph, the phrase "equivalent access" means a substantially similar ability to communicate with or make use of the technology, either directly by features incorporated within technology or by other reasonable means such as assistive devices or services which would constitute reasonable accommodations under the Americans with Disabilities Act or similar state or federal laws. Examples of methods by which equivalent access may be provided include, but are not limited to, keyboard alternatives to mouse commands and other means of navigating graphical displays, and customizable display appearance.

ACT 157 of 2007 EMPLOYMENT OF ILLEGAL IMMIGRANTS

Pursuant to Act 157 of 2007 (Ark. Code Ann. § 19-11-105), all Vendors must certify prior to award of the contract that they do not employ or contract with any illegal immigrants in its contract with the State. Vendors shall certify online at: <http://www.dfa.arkansas.gov/Pages/businessServices.aspx>.

Any subcontractors used by the Vendor at the time of the Vendor's certification shall also certify that they do not employ or contract with any illegal immigrant. Certification by the subcontractors shall be submitted within thirty (30) days after contract execution.

ARKANSAS LOTTERY COMMISSION MAJOR PROCUREMENT RULES

Vendors are subject to all requirements of the Arkansas Lottery Commission Major Procurement Rules (Attachment A), whether such requirements are specifically set forth in this RFQ or not.

ALTERATION OF ORIGINAL RFQ DOCUMENTS

The original written or electronic language of the RFQ shall not be changed or altered except by approved written addendum issued by the Arkansas Lottery Commission. This does not eliminate a Vendor from taking exception(s) to these documents, but does clarify that the Vendor cannot change the original document's written or electronic language. If the Vendor wishes to make exception(s) to any of the original language, it must be submitted by the Vendor in separate written or electronic language in a manner that clearly explains the exception(s). If Vendor's/Contractor's submittal is discovered to contain alterations/changes to the original written or electronic documents, the Vendor's response may be declared as "non-responsive" and the response shall not be considered.

REQUIREMENT OF AMENDMENT

THIS RFQ MAY BE MODIFIED ONLY BY AMENDMENTS WRITTEN AND AUTHORIZED BY THE ARKANSAS LOTTERY COMMISSION. Vendors are cautioned to ensure that they have received or obtained and responded to any and all amendments to the RFQ prior to submission.

DELIVERY OF RESPONSE DOCUMENTS

In accordance with the Arkansas Lottery Commission Major Procurement Rules, it is the responsibility of vendors to deliver submissions at the place and on or before the date and time set in the RFQ solicitation documents.

Submissions received at the Arkansas Lottery Commission Offices after the date and time designated for the RFQ opening are considered late submissions and shall not be considered. Documents that are to be returned may be opened to verify which RFQ the submission is for.

INTENT TO AWARD

After complete evaluation of the submission, the intent to award will be posted on the Arkansas Lottery Commission's website (www.myarkansaslottery.com) and/or the legal section of a newspaper of statewide circulation. The purpose of the posting is to establish a specific time in which vendors and agencies are aware of the intent to award. The RFQ results will be posted for a period of at least fourteen (14) days prior to the issuance of any award. Vendors and agencies are cautioned that these are preliminary results only, and no official award will be issued prior to the end of the posting period. Accordingly, any reliance on these preliminary results is at the agency's/vendor's own risk.

The Arkansas Lottery Commission reserves the right to waive this policy when it is in the best interest of the State. Vendors are responsible for viewing the *Intent to Award* section of the Arkansas Lottery Commission's web site at: www.myarkansaslottery.com.

PAST PERFORMANCE

In accordance with provisions of the Arkansas Lottery Commission Major Procurement Rules Section (7)(C)(x)(g), a vendor's past performance with the State may be used in the evaluation of any offer made in response to this solicitation. The past performance should not be greater than three (3) years old and must be supported by written documentation on file in the Arkansas Lottery Commission at the time of the submission opening. Documentation may be in the form of a written or electronic report, VPR, memo, file or any other appropriate authenticated notation of performance to the vendor files.

EO-98-04 GOVERNOR'S EXECUTIVE ORDER

Completion of Disclosure Forms is required by Governor's Executive Order EO-98-04 as a condition of obtaining, extending, amending, or renewing a contract, lease, purchase agreement, or grant award with any Arkansas state agency. (<http://www.dfa.arkansas.gov/offices/accounting/internalaudit/Pages/ExecutiveOrder98-04.aspx>)

SECTION I. INSTRUCTIONS TO PROPOSERS/GENERAL INFORMATION

A. PURPOSE. The Arkansas Lottery Commission ("ALC") requests submittal of qualifications from law firms (Proposers) to provide Outside Counsel services on certain transactions where the need for legal advice is required. From a list of respondents to this Request for Qualifications (RFQ), ALC expects to select a firm to serve for a period of approximately two (2) years beginning _____, with five (5) optional extension periods of one (1) year each, subject to successful negotiation of fees with the concerned firm. The ALC reserves the right to select more than one firm to provide these legal services.

ALC makes no representation or warranty of any nature that any firm selected pursuant to this RFQ will participate in any minimum or maximum number of transactions. Any counsel selected pursuant to this RFQ shall serve at the pleasure of ALC, and the professional services of any firm selected may be terminated, at the sole discretion of ALC, upon delivery of written notice of such termination to the selected firm.

B. SUBMISSION OF PROPOSALS. Written proposals responding to the questions and requests for information in the manner specified in this Request for Qualifications (RFQ) should be submitted to the following:

**Bishop Woosley
Chief Legal Counsel
Arkansas Lottery Commission
P.O. Box 3238
Little Rock, AR 72203-3238**

To be considered, four (4) copies of the proposal should be delivered to ALC not later than _____ by 4:00 p.m. CST. All proposals shall be time and date stamped upon receipt. Late proposals will not be accepted. ALC reserves the right to reject any or all proposals.

C. ADDITIONAL INFORMATION. It is the responsibility of the proposer to inquire about and clarify any aspect of the RFQ. Questions should be in writing and directed to Mr. Bishop Woosley (bishop.woosley@arkansas.gov) at (501) 683-1890. Substantive questions and answers will be documented and will be posted on the Arkansas Lottery Commission website at the following address: <http://myarkansaslottery.com/about/procurement>

D. PROPERTY OF ALC. Any information or materials submitted as a response to this RFQ shall become the property of the ALC and will not be returned. All submitted materials will be available for public review.

E. RESPONSE TO REQUEST FOR QUALIFICATIONS. Law firms wishing to respond to this RFQ must submit their responses to Mr. Bishop Woosley on the date and time designated above. No contact with Arkansas Lottery Commission Audit/Legal Committee members is allowed and any such contact will be grounds for immediate rejection of a firm's proposal.

F. PROPOSAL TIMETABLE.

(date)	Request for proposal issued
(date)	Proposals due by 4:00 p.m. CST
TBA	Oral interviews, if needed
TBA	Commission action (ALC resolution affirming Chief Legal Counsel, authorizes the Director of ALC to negotiate fees)
TBA	ALCLOC Review

Note: After selection, the engagement contract is submitted to the Arkansas Lottery Commission Legislative Oversight Committee for review.

G. SELECTION PROCESS. The ALC Audit/Legal Committee and ALC Chief Legal Counsel will review the submitted proposals. Proposals will be evaluated based on responses to specifics outlined in the Proposal Format section of this RFQ and based upon the selection criteria. Proposals which omit any of these items may be rejected as non-responsive. ALC, at its sole option, may waive any non-compliant matter with respect to any or all proposals. From this review, a select group of firms could be chosen for interviews. All proposing firms will be advised of the firms selected. After interviewing the selected firms, the ALC Audit/Legal Committee will make its decision on a recommendation for selection, which will be reported to the full Arkansas Lottery Commission. The ALC may approve or reject the Legal/Audit Committee's recommendation. ALC may at any time prior to the selection of Outside Legal Counsel reject any and all proposals and cancel this RFQ, without liability therefore, upon finding by that there is good cause for rejecting all proposals and that it would be in its interest to cancel the solicitation. Further, regardless of the number and quality of proposals submitted, ALC shall under no circumstances be responsible for any proposer costs and expenses incurred in submitting a response to this RFQ. Each proposer who submits a response does so solely at the proposer's cost, risk and expense. ALC accepts no responsibility for the return of successful or unsuccessful proposals. This RFQ in no way obligates ALC to select a firm.

H. SELECTION CRITERIA. The ALC Audit/Legal Committee will use the following criteria to evaluate all acceptable proposals and to develop recommendations to be presented to the ALC; however, the Committee reserves the right to evaluate proposals based upon factors beyond the listed criteria.

Criteria.

1. The specialized experience and technical competence of the firm with respect to the type of professional services required, including, but not limited to prior experience with general Arkansas regulations, including state and federal law, and specifically the Arkansas Scholarship Lottery Act, the Administrative Procedures Act and the Freedom of Information Act.

2. Response to Arkansas presence issue including relevance of presence to this transaction.
3. The capacity and capability of the firm to perform the work in question, including specialized services, within the time limitations fixed for the completion of the project.
4. Qualifications of staff to be assigned, i.e., team members demonstrated abilities, years, and types of experience.
5. The past record of performance of the firm with respect to such factors as control of costs, quality of work, and ability to meet schedules and deadlines; and
6. Minority Owned and Female Owned Business Participation and Usage.

F. FEE DETERMINATION. Selection of counsel will not be based on a competitive bid, but will be considered. Interested parties should include an appropriate fee schedule. ALC will attempt to negotiate with the selected firm(s) to establish a fair and reasonable fee. If an agreement cannot be reached with the selected firm(s), negotiations may be attempted with other firms that responded to the initial RFQ. If negotiations are not successful with the firms, ALC reserves the right to solicit responses to another RFQ for Outside Counsel Services.

SECTION II: PROPOSAL FORMAT

A. TRANSMITTAL LETTER. A brief transmittal letter prepared on the proposer's business stationery should accompany the original and required copies of the proposal.

B. PROPOSAL. The proposal should be labeled, "Proposal to Serve as Outside Counsel". The proposal must contain sufficient information to enable to ALC Audit/Legal Committee to evaluate the proposal. It should be prepared in a clear and concise manner and should address all appropriate subsections.

1. **Counsel Team and Personnel.** Describe the manner in which you would organize your firm's resources to serve as counsel for the proposed legal services. In doing so, please address the following services and resources:
 - a. Personnel
 - b. Technology
 - c. Other Resources
2. **Arkansas Presence.** Please explain your firm's presence within Arkansas and describe how that presence is relevant to the proposed engagement.
3. **Potential Conflicts.** List any relationship that might lead to a potential conflict in performing any services for ALC. Please list specifically any conflicts resulting from material adverse matters, as distinguished from the conduct of business as usual. Indicate what steps would be taken to eliminate any such conflict.
4. **Rationale for Appointment and Proposal Summary.** This section of the proposal should be used by each proposer to present the case for its appointment to the position sought.
5. **Malpractice Insurance.** Acknowledge that if selected as Outside Counsel, your firm will provide to ALC proof of malpractice insurance.

COMMERCIAL INSURANCE PROPOSAL

PREPARED FOR:

Arkansas Lottery Commission

Arkansas Scholarship Lottery
124 West Capital Avenue #1400
Little Rock AR 72201

PRESENTED BY:

Jerry Davis

Little Rock
P.O. Box 251510
Little Rock, AR 72225-
Phone: 501-664-7705 Fax: 501-664-8052
www.rkfl.com

July 11, 2011



BancorpSouth

Insurance Services, Inc.

Important – Please Read

As you review our proposal, please keep these thoughts in mind:

Always refer to the policies for specific coverage questions. Our proposal is a general overview only. The policy contract determines where and if coverage is available.

Consider flood and earthquake coverage. Neither flood loss nor earthquake loss are covered under standard property policies. All of us have exposure to floods and earthquakes.

The property and liability limits that we illustrate in this proposal are options only. We can provide additional alternative limit options if you request. The selection of limits is solely your decision.

Please notify us throughout the policy year of changes in your business that may affect your exposure to risk. Failure to do so may result in uncovered losses.

The solvencies of the insurance carriers that you select are of utmost importance. Unless noted otherwise, all carriers have a Best Guide rating of A- or better.

In order to offer you choices, our agency maintains relationships with a number of insurance companies. Most of these companies pay our agency a commission when we place coverage with them. Some companies issue policies on a net basis to us, and we, in turn, will charge you an agency fee. Some companies do pay our agency a contingency commission at the end of the calendar year if the group of insurance customers placed with that company have been profitable. Such an arrangement is an incentive for our agency to work with you to prevent losses as well as send profitable business to insurance carriers.

Our relationship with you is based on trust and we do our best to make no representation that would mislead anyone about any aspect of the products or services that we offer.

We value your trust and have always held it in the highest regard; therefore, we will continue to do all that we can to fully represent you in the insurance market place.

Crime

Insurer: National Union Fire Insurance Company

Policy Term: 9/18/2011 to 9/18/2012

Coverage Description	Limits	Deductible	Blanket or Scheduled
Employee Dishonesty	\$2,000,000	\$251,000	Blanket
Forgery and Alteration	\$2,000,000	\$251,000	
Computer Fraud	\$2,000,000	\$251,000	

Additional Coverage/Extensions/Exclusions

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PREMIUM SUMMARY

COVERAGE	A= Admitted NA= Non- Admitted	COMPANY	AM BEST RATING	PREMIUM	POLICY FEE	TAX	TOTAL PREMIUM
Crime	A	National Union Fire Ins. Co.	A+	\$8,681.00			\$8,681.00
TOTAL ANNUAL PREMIUM				\$8,681.00			\$8,681.00

This is only a brief summary, not a contract. Please see policy for full details,
limitations and exclusions.

PREMIUM COMPARISON

COVERAGE	RENEWAL (ESTIMATED) PREMIUM	EXPIRING (ANNUALIZED) PREMIUM
Crime	\$8,681.00	\$8,841.00
Total	\$8,681.00	\$8,841.00

This is only a brief summary, not a contract. Please see policy for full details, limitations and exclusions.

Acceptance of Proposal

Arkansas Lottery Commission

Please bind coverage as proposed by BancorpSouth Insurance Services, Inc., effective _____

I understand that this proposal is only an outline of the insurance policy/policies and does not include all of the terms, coverage, exclusions, limitations and conditions included in the insurance policy/policies. Regardless of the terms, limitations and conditions carried in prior years, this proposal contemplates only the limits, terms, conditions, warranties and exposures represented herein. The insurance policy/policies will include these specific details.

_____ I accept the proposal as presented

_____ I accept the proposal with the following changes:

_____ I reject this proposal

_____ Date Signed

_____ Authorized Signature of Named Insured

_____ Title

_____ Print Name

This is only a brief summary, not a contract. Please see policy for full details, limitations and exclusions.



**Division of Behavioral
Health Services**

DBHS Administration Building
305 South Palm Street. • Little Rock, AR 72205
Phone 501-686-9164 • Fax (501) 686-9182 • TDD: 501-686-9176



August 11, 2011

Bishop Woosley, Attorney
Arkansas Lottery Commission
P.O. Box 3238
Little Rock, AR 72203

Transmitted via email

Re: SFY 2012 Funds Transfer to DHS/DBHS

Dear Mr. Woosley,

Under the authority of Ark. Code Ann. 23-115-410, the DHS Division of Behavioral Health Services (DBHS) is requesting that the annual transfer of \$200,000 be made for SFY 2012, from the Arkansas Lottery Commission to DBHS. As set forth under the above authority, the requested funds will be used by DBHS for implementation and administration of compulsive gambling disorder treatment and education programs.

Should the Commission need anything additional before approving this requested funds transfer, please do not hesitate to call on me. Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Rose Jones".

Rose Jones
Chief Fiscal Officer

cc: Janie Huddleston, Interim Director, DBHS
Joe Hill, Director, OADAP/DBHS

**Arkansas Lottery Commission
2011 - 2012 Internal Audit Plan
Status Report
August 15, 2011**

Audit	Description	Status	Comments
Special Projects			
Facilitate Lottery Risk Assessment required by DFA	Biannual request by DFA to identify risk to Lottery operations, likelihood of occurrence, impact on operations, and controls implemented by Lottery management to mitigate identified risk.	Planned	
Gaming System SSAE 16 Review (Annually)	Review Gaming System SSAE 16 Report prepared by independent auditors.	In Progress	Internal Audit and Legislative Audit participated in planning discussions with an independent accounting firm conducting the review. Expected report date September 2011.
Financial Statements & Comprehensive Annual Financial Report (CAFR) Review (Annually)	Review of Fiscal Year 2011 Financial Reports.	In Progress	Internal Audit has completed a review of the Education Trust Account Transfer Process. Finance Division is in the process of finalizing FY 2011 financial statements and notes.

**Arkansas Lottery Commission
2011 - 2012 Internal Audit Plan
Status Report
August 15, 2011**

Audit	Description	Status	Comments
Instant Ticket Quality Reports (Annually)	Review independent quality control reports of ASL instant tickets.	Planned	
Revenue/Prize Payments - Instant Ticket Games (Annually)	Review to ensure instant ticket game sales, prize expenses, prizes payable, and unclaimed prizes are properly accounted for.	Fieldwork in Progress	10% Complete
Retailer Sweeps (Annually)	To assess the existence and effectiveness of the controls and processes established by management of the Arkansas Scholarship Lottery to ensure the proceeds from on-line and instant ticket lottery game sales are collected in full and in a timely manner.	Fieldwork in Progress	20% Complete
Revenue/Prize Payments/Reserves - Online Games (Annually)	Review to ensure online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes are properly accounted for.	Fieldwork in Progress	80% Complete
High-Tier Prize Payments Documentation (Biannual)	Review the processing and supporting documentation of high-tier prize payouts.	Planned	
Education Trust Funds	Review transactions, confirm balance, and ensure sufficient collateralization. Provide Arkansas Lottery Commission with a schedule of Educational Trust Account transactions.	Monthly	June 2011 Report completed August 4, 2011. July 2011 review near completion.
Employee Travel Reimbursement	Review employee travel reimbursements. Ensure sufficient documentation is obtained and confirm reimbursement amount. Provide Arkansas Lottery Commission with a schedule of employee travel.	Monthly	June 2011 schedule completed. July 2011 schedule near completion. In process of preparing a schedule by individual for Fiscal Year 2011.

**Arkansas Lottery Commission
2011 - 2012 Internal Audit Plan
Status Report
August 15, 2011**

Audit	Description	Status	Comments
Periodic Reviews continue:			
MSR Personal Vehicle Mileage Reimbursement	Review MSR personal vehicle mileage reimbursements. Ensure sufficient documentation is obtained and confirm reimbursement amount. Provide Arkansas Lottery Commission with a schedule of MSR personal vehicle mileage.	Monthly	June 2011 schedule completed. July 2011 schedule near completion.
Goals:			
Licensing - Applications	Review the internal controls surrounding the retailer licensing process (applications).	Preliminary Assessment	Preliminary assessment started August 9, 2011.
Licensing - Renewals	Review the internal controls surrounding the retailer licensing process (renewals).	Preliminary Assessment	Preliminary assessment started August 9, 2011.
Prize Validation & Payments	Review of the internal controls surrounding high-tier prize validations and payments.	Planned	
Instant Ticket Lottery Game Services Contract Compliance	Contract compliance audit of the Instant Ticket Lottery Game Services Contract (Scientific Games).	Planned	Some preliminary work has been conducted for this project.
Back Office System (BOS) Administration (See Note 1)	Internal control review of the Lottery's Back Office System's (BOS) Administration functions.	Planned	
Instant Ticket Game Loads (See Note 1)	Review of the internal controls surrounding the Instant Game Management System (IGMS), including access controls and instant ticket game load, testing, and processing.	Planned	

Note 1: The inclusion of this project as part of the Internal Auditor is dependent on the availability of a qualified part-time auditor to assist Internal Audit.

**Arkansas Lottery Commission – Internal Audit
Review of Findings and Recommendations from the Division of Legislative Audit's
June 30, 2010 Audit Report and Management Letter
Status Report – August 8, 2011**

Audit Report Finding 2010-1:

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

Recommendation for Finding 2010-1:

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

Audit Objective #1

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

Status as of August 8, 2011

Audit fieldwork planned

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

**Arkansas Lottery Commission – Internal Audit
Review of Findings and Recommendations from the Division of Legislative Audit's
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Audit Report Finding 2010-2:

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

Recommendation for Finding 2010-2:

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

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

Audit Objective #2

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

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

**Arkansas Lottery Commission – Internal Audit
Review of Findings and Recommendations from the Division of Legislative Audit's
June 30, 2010 Audit Report and Management Letter
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Audit Objective #3

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

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

**Arkansas Lottery Commission – Internal Audit
Review of Findings and Recommendations from the Division of Legislative Audit's
June 30, 2010 Audit Report and Management Letter
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Management Letter Finding #1:

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

Recommendation for Management Letter Finding #1:

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

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

Audit Objective #4

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

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

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

**Arkansas Lottery Commission – Internal Audit
Review of Findings and Recommendations from the Division of Legislative Audit's
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Audit Objective #5

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

No Findings or Recommendations.

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

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

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

**Arkansas Lottery Commission – Internal Audit
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June 30, 2010 Audit Report and Management Letter
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Legislative Audit Management Letter Finding #2:

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

Legislative Audit Recommendation for Management Letter Finding #2:

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

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

Audit Objective #6

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

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

Audit Objective #7

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

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

**Arkansas Lottery Commission – Internal Audit
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Legislative Audit Management Letter Finding #3:

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

Legislative Audit Recommendation for Management Letter Finding #3:

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

NOTE – This finding was cleared by Internal Audit on August 5, 2011.

Audit Objective #8

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

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

**Arkansas Lottery Commission – Internal Audit
Review of Findings and Recommendations from the Division of Legislative Audit’s
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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.

No Findings or Recommendations. Lottery management has established a *Compensatory Time Policy*. In addition, an email written by the Lottery’s Human Resources Director provided guidance to effected employees regarding usage of the compensatory time awarded.

Audit Objective #10

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

No Findings or Recommendations. Internal Audit performed a test of compensatory time usage records and determined that time is accounted for in accordance with policies and procedures, approved, and adequately supported.

**Arkansas Lottery Commission – Internal Audit
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Audit Objective #11

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

No Findings or Recommendations.

Executive Director

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

Vice President of Gaming

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

Vice President of Administration

The Vice President of Gaming has repaid all 178.5 hours compensatory time used in the following manner:

- A reduction in compensation of eight hours per check for eleven (11) pay periods (88 hours)
- A reduction in compensation of approximately seven and a half hours for one (1) pay period (7.5 hours)
- A payroll deduction overpayment of \$57.69 (.53 hours) not returned to the Vice President of Administration
- Forfeiture of her fiscal year 2011 cost-of-living adjustment (COLA) lump sum payment of \$3,845.00 and merit pay increase of \$5,077.24 (82.48 hours)

**Arkansas Lottery Commission – Internal Audit
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Legislative Audit Management Letter Finding #4:

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

Legislative Audit Recommendation for Management Letter Finding #4:

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

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

Audit Objective #12

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

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

**Arkansas Lottery Commission – Internal Audit
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Audit Objective #13

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

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

**Arkansas Lottery Commission – Internal Audit
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Legislative Audit Management Letter Finding #5:

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

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

**Arkansas Lottery Commission – Internal Audit
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June 30, 2010 Audit Report and Management Letter
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Legislative Audit Recommendation for Management Letter Finding #5:

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

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

Audit Objective #14

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

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

Audit Objective #15

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

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

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Legislative Audit Management Letter Finding #6:

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

Legislative Audit Recommendation for Management Letter Finding #6:

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

Audit Objective #16

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

Status as of August 8, 2011

Audit fieldwork complete – No findings or recommendations

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

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Audit Objective #17

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

Status as of August 8, 2011

Audit fieldwork in progress

- Per Legislative Audit's recommendation, Lottery management submitted a memorandum to the Department of Finance and Administration – Office of Personnel Management dated February 15, 2011 requesting a review of the actions taken by the Lottery's Human Resources Division in regards to the granting retroactive pay to two employees.
- The Department of Finance and Administration – Office of Personnel Management responded in a letter dated February 17, 2011 indicating that there was not enough information provided to address the issue.
- Lottery management provided the Department of Finance and Administration – Office of Personnel Management additional information regarding the retroactive payments on June 3, 2011.
- A letter dated July 19, 2011 from the State Personnel Administrator indicated that the Department of Finance and Administration – Office of Personnel Management would not have approved either of the retroactive payments noted in management letter finding #6.
- The Arkansas Lottery Commission's Audit and Legal Committee approved a motion that strongly discourages retroactive payments in the future, but no attempt be made to collect the payments from the employees. The motion will be presented to the full Commission at the August 15, 2011 Arkansas Lottery Commission meeting.

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Audit Objective #18

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

Status as of August 8, 2011

Audit fieldwork planned (if necessary)

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

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Legislative Audit Management Letter Finding #7:

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

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

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

Legislative Audit Recommendation for Management Letter Finding #7:

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

NOTE – This finding was cleared by Internal Audit on August 5, 2011.

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Audit Objective #19

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

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

Audit Objective #20

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

Audit Objective #21

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

No Findings or Recommendations. Lottery management presented numerous options regarding accounting software to the Arkansas Lottery Commission’s Audit and Legal Committee on June 30, 2011. The options included utilizing the Arkansas Administrative Statewide Information System (AASIS) for accounting and/or payroll functions. The Audit and Legal Committee reviewed the options and voted to recommend that the Lottery utilize an updated version of the current accounting software and implement additional internal controls that will resolve the issues noted in the finding. The Arkansas Lottery Commission adopted the Audit and Legal Committee recommendation on July 13, 2011.

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Internal Audit noted the following:

- The number of the deduction fields in the system is being increased in the 2012 version from the 30 to 40 fields. According to the Chief Fiscal Officer this will allow enough data fields to itemize all applicable deductions on a Lottery employee's paystub. This will resolve Objective #20.

- A customized report has been developed within the current accounting system to facilitate the monitoring of the maximum salary allowable for a pay grade and the maximum number of employees authorized. The report is reviewed and verified for compliance by the Human Resources Director for each payroll. Implementation of these compensating controls will resolve Objective #21.

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Legislative Audit Management Letter Finding #8:

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

Legislative Audit Recommendation for Management Letter Finding #8:

We recommend the Agency strengthen internal controls over cash receipts.

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

Audit Objective #22

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

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

Audit Objective #23

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

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

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Legislative Audit Management Letter Finding #9:

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

Legislative Audit Recommendation for Management Letter Finding #9:

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

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

Audit Objective #24

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

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

Audit Objective #25

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

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

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Legislative Audit Management Letter Finding #10:

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

Legislative Audit Recommendation for Management Letter Finding #10:

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

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

Audit Objective #26

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

No Findings or Recommendations. Scientific Games provided a formula for the calculation of the Points for Prizes in a document dated February 1, 2011. Lottery management concurs with the formula.

Audit Objective #27

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

No Findings or Recommendations. Based on a test of transactions conducted by Internal Audit, the billing amount for the Points for Prizes is being calculated in accordance with the formula agreed upon by Lottery management and Scientific Games.

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Legislative Audit Management Letter Finding #11:

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

Legislative Audit Recommendation for Management Letter Finding #11:

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

NOTE – This finding was cleared by Internal Audit on May 9, 2011.

Audit Objective #28

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

No Findings or Recommendations. The Reimbursement for Use of Privately Owned Vehicle section of the Lottery's *Travel Expense Reimbursement Policy* provides guidance for Marketing Sales Representatives in regards to personal vehicle mileage reimbursements.

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Audit Objective #29

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

No Findings or Recommendations.

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

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Audit Objective #30

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

No Findings or Recommendations.

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