

# **Arkansas**



**Scholarship Lottery**

**Commission Meeting**  
**September 19, 2011**

# Comparative Income Statements

## August 2011 and 2010

<u>GAAP Basis Income Statement</u>	<u>August 2011</u>	<u>August 2010</u>	<u>Variance</u>	<u>Percentage Variance</u>
<b>Revenues</b>				
Instant tickets	\$ 32,101,263	\$ 29,423,948	\$ 2,677,315	9.1%
Online tickets	\$ 5,962,656	\$ 5,795,584	\$ 167,072	2.9%
Retailer application, fidelity & service	\$ 47,084	\$ 101,015	\$ (53,931)	-53.4%
Interest Income	<u>\$ 25,810</u>	<u>\$ 54,752</u>	<u>\$ (28,942)</u>	<u>-52.9%</u>
<b>Total Revenues</b>	<b>\$ 38,136,813</b>	<b>\$ 35,375,299</b>	<b>\$ 2,761,514</b>	<b>7.8%</b>
<b>Costs and Expenses</b>				
Prizes, net of unclaimed	\$ 25,275,652	\$ 23,530,330	\$ 1,745,322	7.4%
Retailer Commissions	\$ 2,145,949	\$ 1,973,258	\$ 172,691	8.8%
Gaming Contract Costs	\$ 1,940,724	\$ 1,531,149	\$ 409,575	26.7%
Advertising	\$ 351,505	\$ 317,591	\$ 33,914	10.7%
General and Administrative	\$ 709,180	\$ 664,247	\$ 44,933	6.8%
Services Provided By Other Agencies	<u>\$ 109,440</u>	<u>\$ 20,000</u>	<u>\$ 89,440</u>	<u>447.2%</u>
<b>Total Costs and Expenses</b>	<b>\$ 30,532,450</b>	<b>\$ 28,036,575</b>	<b>\$ 2,495,875</b>	<b>8.9%</b>
<b>Net Income</b>	<b><u>\$ 7,604,363</u></b>	<b><u>\$ 7,338,724</u></b>	<b><u>\$ 265,639</u></b>	<b><u>3.6%</u></b>

# Comparative Income Statements August 2011

## Actual Versus Budget

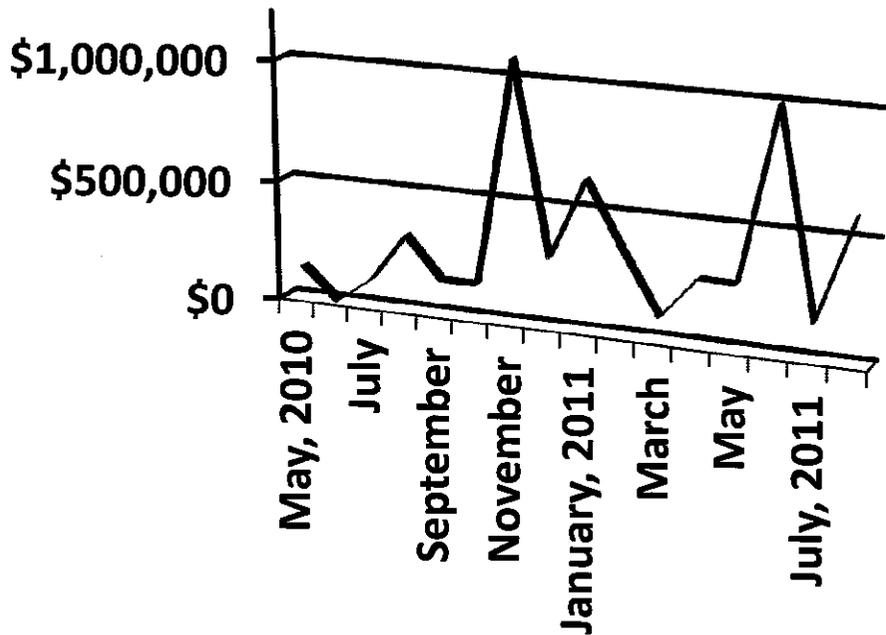
<u>GAAP Basis Income Statement</u>	<u>August 2011 Actual</u>	<u>August 2011 Budget</u>	<u>Variance</u>	<u>Percentage Variance</u>
<b>Revenues</b>				
Instant tickets	\$ 32,101,263	\$ 28,445,986	\$ 3,655,277	12.8%
Online tickets	\$ 5,962,656	\$ 6,322,415	\$ (359,759)	-5.7%
Retailer application, fidelity & service	\$ 47,084	\$ 52,407	\$ (5,323)	-10.2%
Interest Income	<u>\$ 25,810</u>	<u>\$ 18,333</u>	<u>\$ 7,477</u>	<u>40.8%</u>
<b>Total Revenues</b>	<b>\$ 38,136,813</b>	<b>\$ 34,839,141</b>	<b>\$ 3,297,672</b>	<b>9.5%</b>
<b>Costs and Expenses</b>				
Prizes, net of unclaimed	\$ 25,275,652	\$ 22,507,249	\$ 2,768,403	12.3%
Retailer Commissions	\$ 2,145,949	\$ 1,947,595	\$ 198,354	10.2%
Gaming Contract Costs	\$ 1,940,724	\$ 1,773,703	\$ 167,021	9.4%
Advertising	\$ 351,505	\$ 375,000	\$ (23,495)	-6.3%
General and Administrative	\$ 709,180	\$ 757,797	\$ (48,617)	-6.4%
Services Provided By Other Agencies	<u>\$ 109,440</u>	<u>\$ 147,107</u>	<u>\$ (37,667)</u>	<u>-25.6%</u>
<b>Total Costs and Expenses</b>	<b>\$ 30,532,450</b>	<b>\$ 27,508,451</b>	<b>\$ 3,023,999</b>	<b>11.0%</b>
<b>Net Income</b>	<b><u>\$ 7,604,363</u></b>	<b><u>\$ 7,330,690</u></b>	<b><u>\$ 273,673</u></b>	<b><u>3.7%</u></b>

# Percentage Comparative Income Statements

<b>GAAP Basis Income Statement</b>	<b>August 2011 <u>Actual</u></b>	<b>August 2011 <u>Budget</u></b>	<b>August 2010 <u>Actual</u></b>
<b>Revenues</b>			
<b>Instant tickets</b>	84.2%	81.6%	83.2%
<b>Online tickets</b>	15.6%	18.1%	16.4%
<b>Retailer application, fidelity &amp;     service</b>	0.1%	0.2%	0.3%
<b>Interest Income</b>	<u>0.1%</u>	<u>0.1%</u>	<u>0.1%</u>
<b>Total Revenues</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>
<b>Costs, Expenses &amp; Net Income</b>			
<b>Prizes, net of unclaimed</b>	66.3%	64.6%	66.5%
<b>Retailer Commissions</b>	5.6%	5.6%	5.6%
<b>Gaming Contract Costs</b>	5.1%	5.1%	4.3%
<b>Advertising</b>	0.9%	1.1%	0.9%
<b>General and Administrative</b>	1.9%	2.2%	1.9%
<b>Services Provided By Other     Agencies</b>	0.3%	0.4%	0.1%
<b>Net Income</b>	<u>19.9%</u>	<u>21.0%</u>	<u>20.7%</u>
<b>Total Costs, Expenses &amp; Net Income</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

# Unclaimed Prizes

## Unclaimed Prizes Trend Analysis



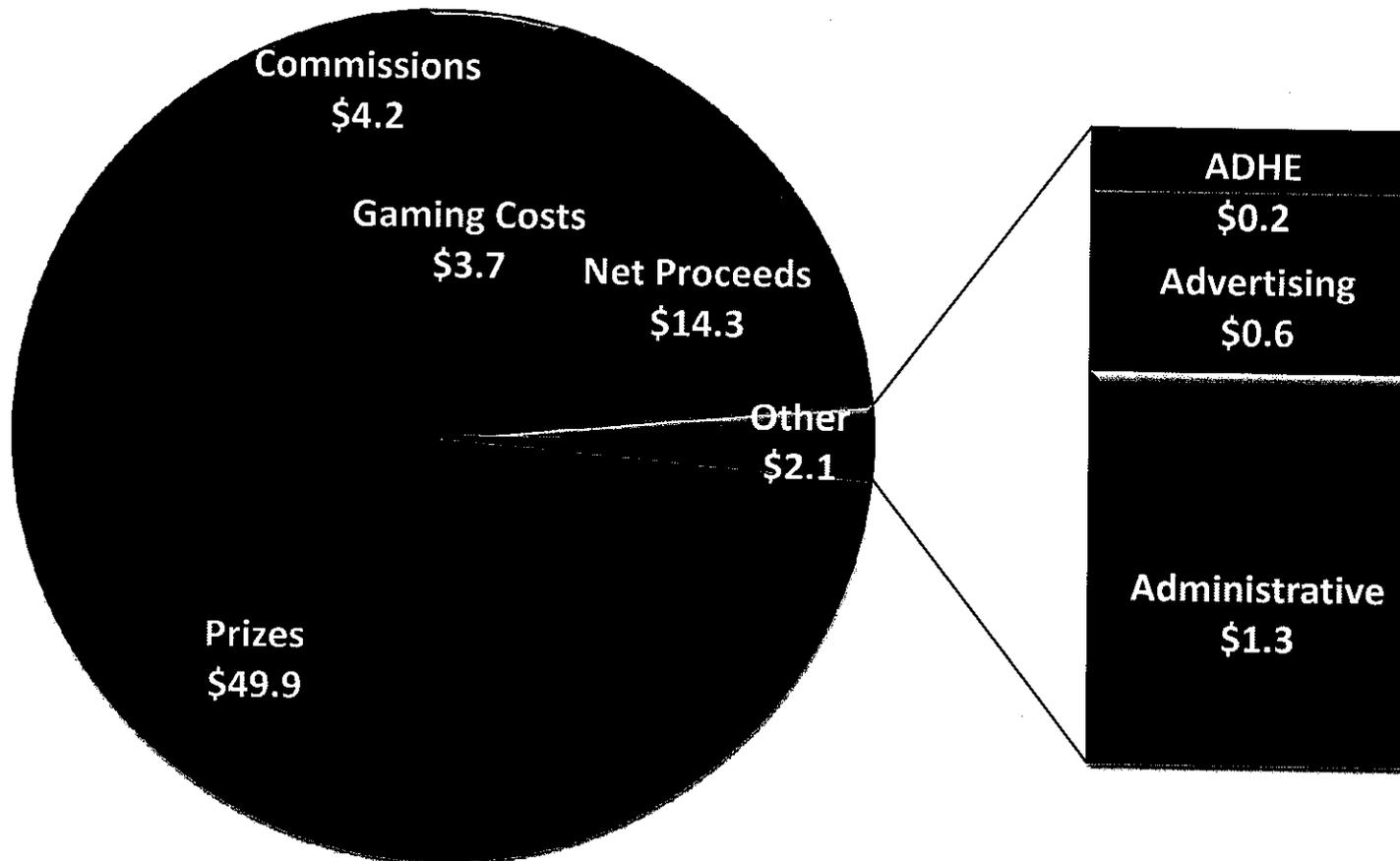
## August 2011 Analysis

Budgeted Unclaimed Prizes For August 2011 \$ 507,707

Actual Unclaimed Prizes For August 2011 \$ 592,242

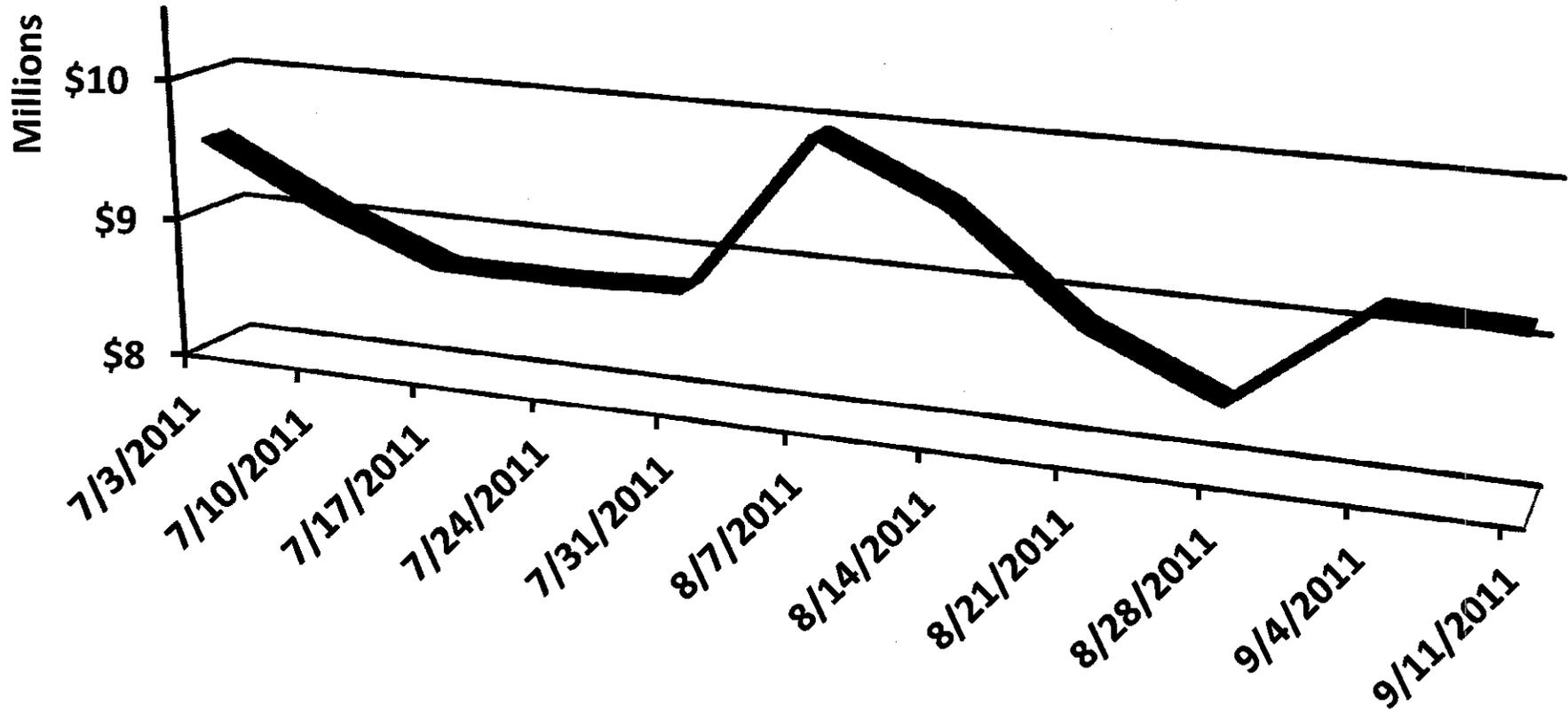
Over/Under Budget \$ 84,535

**The Lottery Dollar**  
**Two Months Ended August 31, 2011**  
**(Unaudited)**  
**Total Revenues \$ 74.2 Million**



# Weekly Sales Trend

## 7/01/11 – 09/11/11



# August 2011 GAAP Versus Net Proceeds

<b>GAAP Basis Net Income</b>		<b>\$ 7,604,363</b>
<b>Add: Depreciation</b>	<b>\$ 15,180</b>	
<b>Change in Instant Activations Not Settled</b>	<b>\$ 202,230</b>	
<b>Change In Cash Prizes Paid</b>	<b><u>\$ 64,573</u></b>	<b>\$ 281,983</b>
<b>Deduct: Fidelity Fund Reserve</b>	<b>\$ 290</b>	
<b>MUSL Reserve</b>	<b>\$ 39,512</b>	
<b>Prior Year Expense Adjustments</b>		
<b>Net Proceeds Transfer</b>	<b>\$ 102,990</b>	
<b>Transfer To ADHS</b>	<b><u>\$ 200,000</u></b>	<b><u>\$ 342,792</u></b>
<b>Actual Net Transfer For August</b>		<b>\$ 7,543,554</b>
<b>Budgeted Net Transfer For August</b>		<b><u>\$ 7,661,733</u></b>
<b>August Budgeted Shortfall</b>		<b><u>\$ 118,179</u></b>

# FY 2012 Transfer Analysis

<u>Month</u>	<u>Actual Transfers</u>	<u>Budgeted Transfers</u>	<u>Over/Under Budget</u>	<u>Cumulative Balance</u>
July, 2011	\$ 7,146,103	\$ 7,760,277	\$ 614,174	\$ 614,174
August	\$ 7,543,554	\$ 7,661,733	\$ 118,179	\$ 732,353
September		\$ 7,466,008		
October		\$ 8,205,900		
November		\$ 7,740,766		
December		\$ 9,027,980		
January, 2012		\$ 9,003,536		
February		\$ 9,157,597		
March		\$ 10,501,849		
April		\$ 8,411,342		
May		\$ 9,434,088		
June		\$ 8,577,674		
<b>Totals</b>		<b><u>\$ 102,948,750</u></b>		

**Arkansas Lottery Commission  
2011 - 2012 Internal Audit Plan  
Status Report  
September 19, 2011**

Audit	Description	Status	Comments
<b>Special Projects</b>			
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 been working with Lottery Finance Department and Legislative Audit on regular basis concerning FY 2011 financial statements and audit.

**Arkansas Lottery Commission  
2011 - 2012 Internal Audit Plan  
Status Report  
September 19, 2011**

Audit	Description	Status	Comments
<b>Periodic Reviews</b>			
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 and August 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	July 2011 and August 2011 schedules near completion.

**Arkansas Lottery Commission  
2011 - 2012 Internal Audit Plan  
Status Report  
September 19, 2011**

Audit	Description	Status	Comments
<b>Periodic Reviews continued</b>			
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.
<b>Audits</b>			
Licensing - Applications	Review the internal controls surrounding the retailer licensing process (applications).	Fieldwork in Progress	25% Complete
Licensing - Renewals	Review the internal controls surrounding the retailer licensing process (renewals).	Fieldwork in Progress	25% Complete
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).	Fieldwork in Progress	10% Complete
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.

September 19, 2011

Ms. Dianne Lamberth  
Chair  
Arkansas Lottery Commission  
124 W Capitol Ave.  
Little Rock, AR 72202

Dear Chair Lamberth:

Please accept this letter as my resignation as Director of the Arkansas Lottery Commission effective October 7, 2011. This should allow sufficient time to select a new Director and get us past the launch of our new game, *Arkansas 50/50 Raffle* on October 1, 2011.

It has been both a pleasure and a privilege to serve the Commission as the Director since the start up of the United States newest lottery. Thank you and the Commission for all the courtesies that have been extended to me over the last two and a quarter years.

With every best wish, I remain



Ernie Passailaigue

cc: Arkansas Lottery Commission, Commissioners