

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, April 16, 2014

10:00 a.m.

**124 West Capitol Avenue, Third Floor
Little Rock, Arkansas**

Call to Order

Commissioner Smokey Campbell called the meeting to order. Commissioners Julie Baldridge, Dianne Lamberth, Raymond Frazier, Bruce Engstrom, Mark Scott, Doug Pierce and Alex Streett were also present. Staff members present included Director Bishop Woosley, Matt Brown, Jean Block, Jerry Fetzer, Robert Stebbins, Joanna Bunten, Lance Huey, Angela Meredith, Patti Vick, Maria Craig, Terry Williams, Valerie Basham, and Jeremy Smith.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on March 19, 2014. Commissioner Engstrom moved to accept the minutes, and the motion was seconded by Commissioner Frazier. The motion was approved unanimously.

Lottery Scholarship Recipient Candace Stratford

Commissioner Campbell recognized Director Woosley, who introduced Candace Stratford, a University of Arkansas at Little Rock student and Arkansas Academic Challenge Scholarship recipient. Ms. Stratford thanked the commission, explaining that she had begun college in 2000, but had to drop out in her sophomore year. Several years later she was able to return to college and was awarded the lottery-funded scholarship as a non-traditional student.

Staff Evaluation Presentation

Maureen Moffit, from Mitchell Communications Group, gave a presentation (in file) to the Commission about best practices regarding employee evaluations.

Report from the Internal Auditor

Internal Auditor Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that fieldwork on Audit Project No. 7 began the week of April 7 and was ongoing. Audit Project No. 9, IT Gaming Operations, was completed and report was issued on April 3. No observations or recommendations were included in the report. Audit Project No. 17, Security Investigations, is in the planning stage, with the audit kick-off meeting set to begin the week of April 28. Audit 40A, Transparency Reporting and Compliance, is also set to kick off the week of April 28. Audit Project No. 29, Payroll and Leave, is in progress. Internal Audit will be requesting ALC Audit & Legal Committee approval to defer Project No. 43, a consulting project to facilitate and review the Risk Assessment required by DFA, due to a timeline change by ALC management. Project No. 46, a consulting project for the Instant Ticket Vendor Security Review, is in progress. Internal Audit expects to receive a report and analyze the results no

later than June 15, 2014. Mr. Brown also reported that Project No. 23F, an audit follow-up on Claim Center Operations Follow-Up Procedures, was complete and a report was issued on April 3, 2014. An observation was made that inaccurate and inconsistent data remained on the Ineligible Players List that could lead to the ALC's erroneous payment of a claim to an individual not eligible to claim a prize of \$500 or more according to Arkansas Law and ALC's Operational Rules. ALC Management has effectively implemented a process to capture ineligible player information. Several commissioners raised concerns about listing children of Commissioners and ALC employees on the Ineligible Players List and discussion followed. **Commissioner Engstrom made a motion that the requirement to list all household members on the Ineligible Players List be revised to list all members of the household aged 17 years and older on the Ineligible Players List. Commissioner Baldrige seconded the motion. The motion passed unanimously.**

Report from the Director

In reviewing the Comparative Income Statements March 2014 and 2013, Director Woosley reported that instant tickets were down \$5.5 million for the month of March 2014 compared to the same period last year. Net proceeds were down \$2.4 million in March 2014 compared to March 2013.

Presenting the March 2014 Actual Versus Budget Statement, he noted that total revenues were up \$512,233 compared to the revised budgeted amount. Online ticket sales were slightly less than anticipated, but not alarmingly so. Instant game prizes were a bit higher than anticipated because of a \$1 million instant ticket winner this month. Actual net proceeds were \$395,162 less than budgeted, most of which could be attributed to the \$1 million winner.

He reported that year to date, revenues were down \$16.9 million compared to YTD 2013. Income before transfers was down \$5.2 million compared to last year and net proceeds were down \$7.7 million compared to the same period in 2013.

In the ADHE Transfer Analysis, he reported that ALC had transferred \$7.3 million in the month of March, just slightly less than budgeted for the month. Total transfers to ADHE for the year thus far total \$65,770,426, which includes \$4.4 million in unclaimed prizes.

Director Woosley reported that there are coupon promotions ongoing. An April/May coupon was sent to members of the Players Club and a May/June mail coupon will be sent to over 1 million households.

He announced that the Multi-State Lottery Association (MUSL) recently notified the lottery that ALC would be receiving a \$128,182 refund from the MUSL Reserves account. The refund will go directly into the net proceeds account in April.

Director Woosley next reported that there was a debit card survey conducted in March 2014 [by Strategic Market Research], which was a state-wide survey of 500 Arkansans who responded either by telephone or online. He said that one of the more compelling statistics of

the survey was that 55% of lottery players responded that there have been times in the past that they have not purchased a lottery ticket because they did not have cash on hand. Of the 500 Arkansans who responded to the survey, including both lottery players and non-players, 49% reported that there were times they had not purchased a ticket because they did not have cash on hand.

Director Woosley asked Ms. Bunten to present her report on a recently conducted Lottery Awareness Tracking Study [by Strategic Market Research](in file). She stated that the survey was conducted in March 2014 and was used to track measurements of a similar survey that was performed in March 2013. She added that the March 2014 survey included additional questions related to debit card preference and jackpots. The survey was conducted by telephone and online and utilized a sample of 500 Arkansas adults aged 18 years and older. The survey categories included: Frequency of Play; Jackpot Levels; Advertising Awareness; Ad Awareness and Frequency of Play; Winner Awareness; and Beneficiary Awareness.

Regarding frequency of play, it was noted that 44% of people surveyed said they played the lottery often or sometimes. The percentage of those who play the lottery *often* declined from 18% in 2013 to 15% in 2014. Those who play *sometimes* decreased by 2%.

When respondents were asked if they played Powerball and Mega Millions when the jackpot reached a certain level, 29% said that they play the lottery regardless of the jackpot level. 17% of the respondents said that they play when the jackpot level is over \$500 million and 11% play when the jackpot reaches \$300 million.

In the Advertising Awareness category, 76% of the respondents stated that they have seen or heard lottery advertising in the past month, which was consistent with the 2013 survey. Television remained the highest level advertising medium. A significantly greater percentage in 2014 mentioned billboard advertising (53%) compared to 2013 (46%).

When respondents were asked about specific game recall, 76% reported that they had seen or heard advertising for Powerball, 73% had seen or heard advertising for Mega Millions, and 65% had seen or heard advertising for scratch off tickets. Advertising recall was lowest (16%) for the Cash 3 and Cash 4 games.

When asked about Winner Awareness, 44% either strongly agreed or agreed that they had heard about lottery winners in 2014. This was a significant decrease compared to 2013 (55%). Beneficiary awareness remained consistent with 2013 results: 94% of respondents were aware that the money was used for college scholarships, up slightly from 91% in 2013. 65% of those responding to the survey either strongly agreed or agreed that the lottery was a good way for the state to support students.

Reports from ALC Committees

Vendor Committee: Commissioner Scott reported that the Vendor Committee met on March 19 and a motion was passed, seconded, and unanimously approved to move consideration of

monitor games out of the committee, to be presented to the full commission on the meeting of April 16. Commissioner Streett reminded the Commission that the Arkansas Lottery Legislative Oversight Committee had met on April 15, and he said the outcome of that meeting [i.e., the LOC voted to express its opposition to monitor games] warranted further discussion. Director Woosley gave a recap of the LOC meeting in which he presented monitor games. He explained that some LOC members were opposed outright, while others wanted to introduce monitor games gradually. Some legislators questioned the constitutionality of the games. He received feedback before and after the LOC meeting, both from those who were in support of the monitor games – and also from those who were not in support of the new games. During that meeting, there was a non-support motion by Senator Hickey, seconded by Senator Burnett and the voice vote was passed. The LOC made it clear that they had review authority and they could not tell the Commission what to do and what not to do. Commissioner Pierce asked former Speaker of the House Robbie Wills to once again clarify to the Commission the intention of the Legislature when it drafted the Arkansas Scholarship Lottery Act. Mr. Wills said he was speaking in the capacity as a sponsor of the original Act. He said that he could tell the Commission that the original intention was to give the ALC the same sort of authority any other lottery commission in the United States has, with only one exception, and that exception was VLT, or slot machines. That limitation was at the request of other interests, and the legislature at that time accommodated that request. Commissioner Engstrom asked if anyone knew how, if monitor games were approved, it would affect the ALC vendor contracts. Director Woosley responded that it didn't have to affect any of the contracts. He said the only issue was that ALC currently did not have monitors. He added that in the Intralot renewal offer, there is an offer to give ALC a certain number of monitors that have a certain value. He said there were two ways to approach [acquiring monitors]: The Commission could take up the renewal offer as soon as it saw fit, to determine whether or not ALC could get the monitors, or, if the Commission was somewhat reluctant to take the renewal offer up right now, it could charge the Director with the authority to try to negotiate for some monitors, based on a launch that the Lottery may do in the fall. In other words, if ALC was going to launch 200 monitor retailers, ALC could conceivably negotiate 200 monitors in order to get it up and running. He said it could be as simple as the Commission approving monitor games and giving him the authority to go out and buy 200 monitors. He said that approval of monitors did not have to affect the contract, but he reminded the Commission that there was an existing offer [from Intralot] that states [Intralot] will give ALC monitors and [Intralot] will reduce the rate based on the fact that [ALC] may play monitor games. Commissioner Engstrom asked if that meant ALC could move ahead on the monitor games without preemptively having to accept [Intralot's] current offer, and Director Woosley responded in the affirmative. Commissioner Baldrige asked if there had been ongoing negotiations regarding the current offer, or if Director Woosley needed permission from the Commission to negotiate. Director Woosley replied that he would prefer to receive permission from the Commission to negotiate the offer. Commissioner Baldrige suggested that one of the Commissioners, acting on behalf of the full Commission, partner with the Director throughout the negotiations so that the negotiations could move forward promptly. **Commissioner Streett made a motion that Commissioner Engstrom partner with Director Woosley to negotiate with Intralot. Commissioner Baldrige seconded the motion, and the motion passed unanimously.**

Commissioner Scott made a motion for the ALC to pursue monitor games for the Arkansas Scholarship Lottery. Commissioner Pierce seconded the motion. Commissioners Campbell, Baldrige, Engstrom, Frazier, and Streett approved the motion, and Commissioner Lamberth opposed the motion. The motion passed by a vote of seven to one.

Commissioner Scott said that during the Vendor Committee meeting held at 9:00 a.m. this date, the committee had voted in favor of moving discussion of a Performance Audit out of the Vendor Committee so that it could be considered by the full Commission. Commissioner Scott added that, for clarification, the Commission would want the staff, working with Internal Audit, to develop criteria for the RFP/RFQ that would be developed, and ALC would decide what it wanted to do based on the criteria and the expense involved. Commissioner Baldrige asked if the Commission was going to put a timetable in the motion. **Commissioner Engstrom made a motion that the Commission approve going ahead with the Performance Audit with the understanding that the RFP/RFQ would be developed based on the criteria established, a time table would then be set, and the Commission would approve it and move forward at that time. Commissioner Baldrige seconded the motion, and it passed unanimously.**

Higher Education Committee: Commissioner Frazier reported that the Higher Education Committee met at 9:30 a.m. this date. During that meeting, the Higher Education Committee approved the motion to remove the restriction against in-state advertising with Arkansas colleges and universities, and to present the motion to the full Commission for consideration. Commissioner **Frazier made a motion to remove the restriction against instate advertising with Arkansas colleges and universities, and Commissioner Scott seconded the motion. The motion passed unanimously.**

Audit and Legal Committee: Commissioner Campbell reported that the committee would meet April 22 to consider a supplementary advertising RFP/RFQ.

Personnel Committee: Nothing to report.

Retail and Marketing Committee: Nothing to report.

Other Business

Commissioner Baldrige proposed a hiring freeze for a short period of time, perhaps waiting until more information had been gathered about individual positions. Commissioner Engstrom asked if there were any critical openings at this time. Director Woosley stated there were two critical MSR positions that needed to be filled. Commissioner Lamberth asked if there was any reason not to bring the subject of hiring freezes to the Personnel Committee. Commissioner Engstrom asked Director Woosley if it was possible for him to verbally agree to a hiring freeze without bringing it to the Personnel Committee. Director Woosley stated that he understood that any Director position would have to come before the Commission simply because of the salary cap. Commissioner Engstrom restated that what he was trying to accomplish was to have him agree to hold back in adding personnel, while allowing a way for the Director to hire

in an emergency, without having to wait for a full commission meeting. Director Woosley responded that he would ask permission to hire two MSRs. Commissioner Engstrom said that he would not mind delegating that authority to the Personnel Committee, that is, to give permission, to which Commissioner Lamberth responded that the subject would have to be brought before the entire committee. She added that they could accomplish it by conference call.

Meeting Date

The next commission meeting was set for 10:00 a.m. on Wednesday, May 21, 2014.

There being no further business, the meeting was adjourned.

Arkansas Lottery Commission
Budget Detail Schedules
For the Fiscal Year Ending June 30, 2015

	2013 Audited	% of Revenue	2014 Budget (Original)	% of Revenue	2014 Budget Revised 01/2014	% of Revenue	2015 Budget	% of Revenue	Explanation for Change in Budget Amounts
Operating Revenues:									
Instant Games	\$ 355,061,785	80.676%	\$ 375,000,000	81.559%	\$ 324,907,460	77.714%	\$ 331,750,000	77.281%	Instant Game sales are forecast approximately \$40 million below the F2014 budget, but are forecast to increase slightly from the revised FY2014 budget.
On-Line Games	84,486,209	19.197%	84,500,000	18.378%	92,858,087	22.211%	97,206,000	22.644%	Online game revenues are forecast to increase due primarily to sales from new games
Less: Promotions Discount	-	0.000%	(250,000)	-0.054%	(250,000)	-0.060%	(250,000)	-0.058%	Promotional discounts remain at the same level as FY2014
Retailer application, fidelity	556,792	0.127%	530,000	0.115%	553,583	0.132%	560,000	0.130%	Retailer communication and licensing fees reflect an increase consistent with the estimated FY2014 level
Non Gaming Revenue	4,490	0.001%	10,000	0.002%	10,000	0.002%	10,000	0.002%	Other miscellaneous revenues are consistent with estimated FY2014 .
Total Operating Revenues	440,109,276	100.000%	459,790,000	100.000%	418,079,130	100.000%	429,276,000	100.000%	
Operating Expenses:									
Instant Game Prizes	250,246,337	56.860%	264,200,000	57.461%	226,753,686	54.237%	237,022,500	55.214%	Decrease in instant games prizes is proportionate to the decrease in instant games revenues
On-Line Game Prizes	41,877,845	9.515%	42,461,250	9.235%	50,490,758	12.077%	52,000,600	12.114%	Online games prizes increase is proportionate to the increase in online games revenues
Retailer Commissions	24,986,551	5.677%	25,982,000	5.651%	23,924,657	5.723%	24,007,600	5.593%	No significant change in percentage paid to retailers. Amount also reflects \$250,000 for retailer bonuses which is the same as for FY2014. Forecast decrease is consistent with decrease in revenues.
Gaming Contract Costs	22,116,163	5.025%	23,664,250	5.147%	21,218,085	5.075%	21,117,000	4.919%	No significant change in percentage paid to gaming vendors. Lower FY2015 budget amount is due primarily to decrease in ticket revenues
Staff Compensation & Benefits	6,049,048	1.374%	6,350,000	1.381%	5,780,332	1.383%	6,450,000	1.503%	Increase relates to the forecast to backfill five to seven currently vacant positions and estimating a 3% merit bonus for FY2015. Also a 1% COLA increase is projected.
Marketing, Advertising & Promotions	4,414,655	1.003%	4,500,000	0.979%	4,499,223	1.076%	5,000,000	1.165%	\$500,000 increase is to be used to promote 5 Year Anniversary plan.
General and administrative expenses	1,231,212	0.280%	1,370,000	0.298%	1,388,301	0.332%	1,420,000	0.331%	Increase for FY2015 is due to expected increases for lease costs and DIS fees.
Services Provided by Other Agencies:	936,736	0.213%	1,550,000	0.337%	1,117,411	0.267%	800,000	0.186%	The ADHE administrative fees are budgeted for \$650,000, as the actual fees billed for FY2014 were \$615,000. An additional \$150,000 is budgeted for Legislative Audit fees for the annual audit.
Legal and Professional Services	22,507	0.005%	25,000	0.005%	12,674	0.003%	10,000	0.002%	Decrease in the budget for legal and professional services is due to the hiring of a full time Chief Legal Counsel position
Capital asset depreciation	182,158	0.041%	185,000	0.040%	183,343	0.044%	210,000	0.049%	Increase reflects impact of the purchase of approx. \$125,000 of depreciable assets which is expected to occur in FY2015
Total Operating Expenses	352,063,212	79.994%	370,287,500	80.534%	335,368,470	80.217%	348,037,700	81.076%	
Operating Income	88,046,064	20.006%	89,502,500	19.466%	82,710,660	19.783%	81,238,300	18.924%	
Non-Operating Revenue (Expense):									
Interest Income	322,722	0.073%	240,000	0.052%	270,027	0.065%	140,000	0.033%	Based upon an average balance of approximately \$27 million at 55 basis points
Other Non-Operating Income	-	0.000%	-	0.000%	0	0.000%	-	0.000%	No non-operating income for FY2015 is identified
Income before Transfers	\$ 88,368,786	20.079%	\$ 89,742,500	19.518%	\$ 82,980,687	19.848%	\$ 81,378,300	18.957%	
Transfers To:									
Arkansas Department of Health Services	(200,000)	-0.045%	\$ (200,000)	-0.043%	\$ (200,000)	-0.048%	\$ (200,000)	-0.047%	This amount is specified by statute
ADHE Education Trust Account (Regular)	(85,216,747)	-19.363%	(84,241,200)	-18.322%	(77,000,790)	-18.418%	(75,500,000)	-17.588%	This is the amount of the expected transfer of Net Proceeds to ADHE for F2014
Unclaimed Prizes Reserve-transferred at June 30 by statute	(5,040,414)	-1.145%	\$ (5,258,800)	-1.144%	(5,779,897)	-1.382%	\$ (5,700,000)	-1.328%	
Total Transfers to ADHE Education Trust Account	(90,257,161)	-20.508%	\$ (89,500,000)	-19.465%	\$ (82,780,687)	-19.800%	\$ (81,200,000)	-18.916%	
Change in Net Assets	(\$ 2,088,375)	-0.475%	\$ 42,500	0.009%	\$ 0	0.000%	(\$ 21,700)	-0.005%	




STATE OF ARKANSAS
**Department of Finance
and Administration**

OFFICE OF THE DIRECTOR

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MEMORANDUM

TO: All State Agency Directors, Boards, Commissions,
Presidents/Chancellors of State Supported Institutions of Higher
Education and Personnel/Payroll Representatives

FROM: Richard A. Weiss, Director 

SUBJECT: Merit Lump Sum Payments

DATE: March 28, 2014

Governor Beebe has determined that employee performance merit bonuses will be awarded for Fiscal Year 2014. Bonuses are possible due to the fact that this is a one-time payment to employees and will not affect base salaries or the state's budget for FY2015. Agency salary savings along with sufficient funds in the Merit Adjustment fund allow for these bonuses.

Merit bonuses will be awarded to employees based on the following percentages for each of the performance categories:

- Exceeds Standards: 3.0%
- Above Average: 2.0%
- Satisfactory: 1.0%

Merit lump sum payments for performance evaluations completed in fiscal year 2014 will be awarded in the last pay period of this fiscal year. June 8 through June 21, 2014, is the last pay period for agencies on the AASIS system. These bonuses will be in paychecks received by state employees on June 27, 2014. Merit pay will be awarded to all eligible employees, including those in the Career Service, Professional/Executive, and Unclassified positions.

Kay Barnhill Terry, State Personnel Administrator, will issue a follow up memorandum which will include procedural instructions for implementing these lump sum payments.

If you have any questions, please contact your State Personnel Analyst in the Office of Personnel Management.

RAW:kbt

**Arkansas Lottery Commission
Monthly Internal Audit Update
May 21, 2014**

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**Arkansas Lottery Commission
FY 2014 Internal Audit Plan Status Report
May 21, 2014**

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
1	Audit	Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).	In Progress	Status Update: Audit kick-off was held on May 6, 2014, and fieldwork is ongoing.	86
7	Audit	Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.	Complete	Status Update: Final Report was issued on May 12, 2014, with no observations or recommendations reported.	-
17	Audit	Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	In Progress	Status Update: Audit kick-off was held on April 29, 2014, and fieldwork is ongoing.	70
29	Audit	Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	Substantially Complete	Status Update: Fieldwork is substantially complete and reporting remains. Final report issuance is expected prior to the end of May.	8
38	Audit	IT General Controls	General IT/Computer-related controls that apply to all system components, processes, and data. ITGCs include logical and physical data center access, system development, change management, backup and recovery, and computer operation controls.	Planning Stage	Status Update: Audit kick-off was held on May 8, 2014.	158
40A	Audit	Transparency Reporting & Compliance	Controls and procedures surrounding required reporting of information and compliance with requirements under Act 303 of 2011, that created the transparency.arkansas.gov website.	In Progress	Status Update: Audit kick-off was held on April 29, 2014, and fieldwork is ongoing.	57
43	Consulting Project	Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA.	See Status Update	Status Update: The ALC Audit & Legal Committee approved deferral of this project to the FY 2015 Audit Plan, due to Management's decision to move the timing of its risk assessment activities to December 2014.	-
46	Consulting Project	Instant Ticket Vendor Security Review (Annually)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.	In Progress	Status Update: Review procedures took place the week of March 3, 2014. Internal Audit expects to receive a report and analyze the results no later than June 15, 2014.	24
Total Estimated Hours to Complete FY 2014 Plan (Excluding Follow-Up)						403

Arkansas Lottery Commission

FY 2014 Internal Audit Plan Status Report

May 21, 2014

Follow-Up Audit Projects Resulting from Previous Audits⁴

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
14F2	Audit Follow-Up	Back Office System (BOS) Administration Follow-Up Procedures	Additional follow-up procedures regarding observations from FY 2014 initial follow-up procedures.	In Progress	Status Update: Fieldwork began the week of May 5, 2014.	38
19F	Audit Follow-Up	Human Resources Processes Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Planning Stage	Status Update: Expected to be performed in June.	45
30F	Audit Follow-Up	Federal & State Tax Withholding & Reporting Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	Status Update: Based on timing of revised filings with the IRS, this follow-up work will be performed as part of the FY 2015 Audit Plan.	-
47F	Audit Follow-Up	Instant Ticket Reconstructions Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	In Progress	Status Update: Fieldwork began the week of May 12, 2014.	24
36AF	Audit Follow-Up	Financial Accounting & CAFR	Follow-up procedures regarding observations from FY 2013 audit.	Open	Status Update: Earliest timing will be after production of the FY 2014 CAFR. No time included in estimate since this cannot be completed until FY 2015.	-
Total Estimated Hours to Complete FY 2014 Plan (Including Follow-Up)						510

Supplemental Projects Approved by the Audit & Legal Committee⁵

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
11	Review	Instant Ticket Quality	Review of independent quality control reports for instant tickets.	Open		18
33	Audit	Travel Reimbursements	Controls and procedures surrounding travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	Open		160
32	Audit	Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	Open		70
18	Audit	Background Checks	Controls and procedures surrounding the background check process.	Open		120
27	Audit	Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	Open		160

Notes

¹Project Number based on number of all projects within the project universe. "F" indicates follow-up procedures. Follow-up procedures for audits in a given fiscal year may be incorporated into the following fiscal year's audit plan depending on several factors, including the timing of any Management remediation activities and available Internal Audit resources. See Page 4 for complete, numbered project universe.

²Definition of Project Status: Open - Project has not yet been scheduled; Scheduled - Project has been scheduled and is included in the Internal Audit master schedule. Project timing subject to change based on a number of factors including business need, internal audit resources, etc.; Planning Stage - Project planning beyond scheduling has begun. Actual fieldwork may be several weeks away and finalization of all phases of the project may be several months away; In Progress - Fieldwork is underway. Project completion and finalization may still be several weeks away; Complete - Project is complete for the fiscal year unless otherwise noted (i.e. partially complete, substantially complete).

³Estimated hours to complete based on current knowledge of expected scope and complexity of the project. Actual hours needed to complete a project are subject to change based on the overall complexity of the project (including the nature and volume of any audit findings), the timing of the project, the availability of Internal Audit resources, and the discretion of the Internal Auditor and/or Audit & Legal Committee.

⁴Follow-Up Projects result from planned audits where items or issues were identified and Internal Audit must perform additional audit procedures to affirm their resolution.

⁵On December 2, 2013, the Audit & Legal Committee approved a list of supplemental audit projects for completion during FY 2014, should all planned projects be completed ahead of schedule. These projects should generally be prioritized for completion after any follow-up projects.

Arkansas Lottery Commission
Internal Audit Project Universe for FY 2014 - 2016 Audit Plan

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
Legal - Block						
1 Online Games & Gaming System Contract Compliance			X			
2 Instant Ticket Lottery Game Services Contract Compliance	X					
3 Banking Contract Compliance				X		
4 Advertising Contract Compliance				X		
5 Record Retention				X		
6 Legal Compliance & Monitoring				X		
6A Major Procurement Contracts						X
Gaming & Product Development - Smith						
7 Instant & Online Ticket Game Development			X			
8 Points for Prizes & Play It Again			X			
9 IT Gaming Operations			X		X	
10 IT Gaming Quality Assurance		X			X	
11 Instant Ticket Quality	X				X	X
Security & Licensing - Huey						
12 Lottery Facilities Security & Controls				X		
13 In-State Draw Security & Controls			X			
14 Back Office System (BOS) Administration		X			X	
15 Instant Ticket Warehouse Operations			X		X	
16 Licensing & Retailer Compliance	X				X	
17 Security Investigations			X			
Human Resources - Basham						
18 Background Checks				X		
19 Human Resource Processes (Hiring, Benefits, Terminations, etc.)			X			
Commission & Legislative Affairs - TBD						
20 Public & Legislative Relations				X		
Sales - Stebbins						
21 Sales Force Reporting				X		
Marketing - Bunten						
22 Advertising & Marketing (excl Contract Compliance)				X		

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
Treasury - Fetzer/Parrish						
23 Claim Center Operations	X		X		X	
24 Cash Receipts				X		
25 Retailer Sweeps/Commissions/Accts Receivable & Adjustments	X				X	
26 Cash Management				X		
Financial Control - Fetzer/Williams						
27 Fixed Assets				X		
28 Accounts Payable/Purchasing/Expenditures		X			X	
29 Payroll & Leave			X			
30 Federal & State Tax Withholding & Reporting			X			
31 Unclaimed Prize Fund				X		
32 Education Trust Fund	X	X				
33 Travel Reimbursements	X	X			X	
34 Revenue/Prize Payments/Reserves - Online Games	X				X	
35 Revenue/Prize Payments - Instant Ticket Games	X				X	
36 Accounting Close & Reporting		X			X	
36A Financial Accounting & CAFR		X			X	
37 Financial Planning/Budgeting		X			X	
Information Technology - Fetzer/Gilmore/Smith						
38 IT General Controls			X			
39 Disaster Recovery/Business Continuity			X		X	
40 IT Help Desk & Desktop Support				X		
40A Transparency Reporting & Compliance			X		X	
Internal Operations - Fetzer/TBD						
41 Lottery Vehicles				X		
42 Building & Facility Maintenance				X		
Recurring Projects						
43 Facilitation/Review of Risk Assessment required by DFA (Biennially)	X		X		X	
44 Gaming System SSAE 16 SOC1 Review (Annually)	X	X	X	X	X	X
45 Financial Statements & CAFR Review (Annually)	X	X	X	X	X	X
46 Instant Ticket Vendor Security Review (Annually)		X	X	X	X	X
47 Instant Ticket Reconstructions (Annually)			X	X	X	X



Report from the Director
May 21, 2014

The Story of Candace Stratford, Arkansas Academic Challenge Scholarship Recipient



“
**A DREAM DELAYED
IS NOT A FUTURE
DENIED.”**
– Candace Stratford
Arkansas Academic Challenge
Scholarship recipient

DON'T MISS THE DEADLINE!
JUNE 1

The Arkansas Scholarship Lottery has generated more than \$413 million to support the Arkansas Academic Challenge Scholarship. If you're planning to attend college in the fall, apply now by completing the YOUniversal financial aid application at www.adhe.edu.

Arkansas Scholarship Lottery
adhe ARKANSAS DEPARTMENT OF HIGHER EDUCATION

- Hometown: Fort Smith
- Graduated Pulaski Technical College in May 2013 with AA Degree with honors/member of Phi Theta Kappa Honor Society
- Attends UALR as a non-traditional student, working toward degrees (double major) in Liberal Arts and Sociology
- Maintains a 3.8 GPA. Candace is in the top 15% of her graduating class
- Awarded \$20,000 from the Arkansas Challenge Scholarship – eight semesters (contingent upon completed qualifications)

“A Dream Delayed is Not a Future Denied”

~Candace Stratford~



Comparative Income Statements

April 2014 and 2013

GAAP Basis Income Statement	April 2014	April 2013	Favorable/ (Unfavorable)	Percentage Variance
Revenues				
Instant Tickets	\$ 29,789,257	\$ 32,334,854	\$ (2,545,597)	-7.9%
Online Tickets	6,796,366	5,806,093	990,273	17.1%
Retailer App/Fidelity	41,285	41,440	(155)	-0.4%
Total Revenues	36,626,908	38,182,387	(1,555,479)	-4.1%
Operating Expense				
Instant Game Prizes	21,449,621	22,948,331	1,498,710	6.5%
On-Line Game Prizes	3,396,495	3,059,022	(337,473)	-11.0%
Retailer Commissions	2,139,152	2,136,230	(2,922)	-0.1%
Gaming Contract Costs	1,791,082	1,927,473	136,391	7.1%
Advertising	370,475	534,462	163,987	30.7%
General and Administrative	641,420	604,046	(37,374)	-6.2%
Other Agency Services	68,333	110,000	41,667	37.9%
Total Operating Expenses	29,856,578	31,319,564	1,462,986	4.7%
Operating Income	6,770,330	6,862,823	(92,493)	-1.3%
Interest Income	15,228	19,772	(4,544)	-23.0%
Other Non Operating Income	-	-	-	-
Income Before Transfers	\$ 6,785,558	\$ 6,882,595	\$ (97,037)	-1.4%
Net Proceeds	\$ 7,476,151	\$ 8,143,647	\$ (667,496)	-8.2%

Note – Net Proceeds does not includes unclaimed prizes.

Comparative Income Statements

April 2014 Actual Versus Budget

GAAP Basis Income <u>Statement</u>	April 2014 <u>Actual</u>	April 2014 <u>Revised Budget</u>	Favorable/ <u>(Unfavorable)</u>	Percentage <u>Variance</u>
Revenues				
Instant Tickets	\$ 29,789,257	\$ 29,587,736	\$ 201,521	0.7%
Online Tickets	6,796,366	8,089,364	(1,292,998)	-16.0%
Retailer App/Fidelity	41,285	45,000	(3,715)	-8.3%
Total Revenues	36,626,908	37,722,100	(1,095,192)	-2.9%
Operating Expense				
Instant Game Prizes	21,449,621	20,255,893	(1,193,728)	-5.9%
On-Line Game Prizes	3,396,495	4,434,913	1,038,418	23.4%
Retailer Commissions	2,139,152	2,229,357	90,205	4.0%
Gaming Contract Costs	1,791,082	1,966,983	175,901	8.9%
Advertising	370,475	400,000	29,525	7.4%
General and Administrative	641,420	666,529	25,109	3.8%
Other Agency Services	68,333	100,000	31,667	31.7%
Total Operating Expenses	29,856,578	30,053,675	197,097	0.7%
Operating Income	6,770,330	7,668,425	(898,095)	-11.7%
Interest Income	15,228	20,000	(4,772)	-23.9%
Other Non Operating Income	-	-	-	-
Income Before Transfers	\$ 6,785,558	\$ 7,688,425	\$ (902,867)	-11.7%
Net Proceeds	\$ 7,476,151	\$ 7,130,227	\$ 345,924	4.9%

Note – Net Proceeds does not includes unclaimed prizes.

Comparative Income Statements

YTD April 30, 2014 Compared to April 30, 2013

GAAP Basis Income <u>Statement</u>	<u>Actual</u> <u>YTD 4/30/14</u>	<u>Actual</u> <u>YTD 4/30/13</u>	<u>Favorable/</u> <u>Unfavorable</u>	<u>Percentage</u> <u>Variance</u>
Revenues				
Instant Tickets	\$ 270,258,149	\$ 299,298,014	\$ (29,039,865)	-9.7%
Online Tickets	76,635,678	66,056,982	10,578,696	16.0%
Retailer App/Fidelity	473,724	468,774	4,950	1.1%
Total Revenues	347,367,551	365,823,770	(18,456,219)	-5.0%
Operating Expense				
Instant Game Prizes	192,280,925	210,465,240	18,184,315	8.6%
On-Line Game Prizes	39,974,320	32,406,871	(7,567,449)	-23.4%
Retailer Commissions	19,517,664	20,458,513	940,849	4.6%
Gaming Contract Costs	17,220,026	18,320,260	1,100,234	6.0%
Advertising	3,626,091	3,293,524	(332,567)	-10.1%
General and Administrative	5,888,368	5,805,066	(83,302)	-1.4%
Other Agency Services	822,410	1,238,880	416,470	33.6%
Total Operating Expenses	279,329,804	291,988,354	12,658,550	4.3%
Operating Income	68,037,747	73,835,416	(5,797,669)	-7.9%
Interest Income	211,140	269,276	(58,136)	-21.6%
Other Non Operating Income	461,047		461,047	100.0%
Income Before Transfers	\$ 68,709,934	\$ 74,104,692	\$ (5,394,758)	-7.3%
Net Proceeds	\$ 63,017,096	\$ 71,426,619	\$ (8,409,523)	-11.8%

Note – Net Proceeds does not includes unclaimed prizes.

Arkansas Lottery Commission

ADHE Transfer Analysis

Month	2014 Transfers	2014 Unclaimed Prizes	2014 Budget	Over/Under Budget	Cumulative Balance
July,2013	\$ 4,891,372	\$ 747,115	\$ 5,621,039	\$ 17,448	\$ 17,448
August	6,401,829	87,431	6,959,900	(470,640)	(453,192)
September	6,023,766	618,079	7,279,088	(637,243)	(1,090,435)
October	6,773,937	94,334	7,497,572	(629,301)	(1,719,736)
November	6,768,352	257,183	7,629,131	(603,596)	(2,323,332)
December	5,831,219	672,632	8,025,502	(1,521,651)	(3,844,983)
January, 2014	5,616,281	1,175,002	7,209,769	(418,486)	(4,263,469)
February	5,909,956	122,302	7,534,121*	(1,501,863)	(5,765,332)
March	7,324,233	642,144	8,014,304*	(47,927)	(5,813,259)
April	7,476,151	85,297	7,688,425*	(126,977)	(5,940,236)
May					
June					
Totals	\$ 63,017,096	\$ 4,501,519	\$ 73,458,851		

* Revised Budget



Object of Quick Draw game

- The player chooses from one (1) to ten (10) numbers (spots) from one (1) to eighty (80). The computer randomly draws twenty (20) numbers from the field of eighty (80) numbers every four (4) minutes. Players can select numbers or utilize computer-generated "Quick Pick" selection.
- Select retailers will be equipped with a television monitor(s) that displays a new drawing every four (4) minutes during draw times.
- A win occurs when some or all of the numbers (spots) selected by the player are matched by the computer per the prize table. The more numbers a player matches in a drawing, the higher the payout. It is even possible to win a cash prize when none of the players selected numbers in a ten spot game are drawn.
- Add the Multiplier option for a chance to increase prizes by as much as 10 times.

Big April & May Winners



The most recent Mega Millions Winner (May 16th drawing) has not yet come forward. The ticket, worth \$25,000, was bought at Tobacco Station #5 in Conway.



Charles McCoy of Jacksonville recently won \$10,000 playing Powerball. He bought the ticket at Jones Food Mart, Jacksonville.



Herschel Caples of Jonesboro won the NSJ \$160,000 on May 13. He purchased his ticket from Tobacco Superstore in Jonesboro.

Big April & May Winners



Shannon Blair of Benton, won \$22,837 playing a \$5 AR Progressive Jackpot. Her retailer was Jimmy's Superstop in Benton.

Alanna Mahan of Conway was another big AR Progressive Jackpot Winner. She won \$23,502. She bought the ticket at Valero Superstop 678 in Morrilton.



Raymond Hardin of North Little Rock won a Quarter Million Jackpot. He's planning on using his \$250,000 winnings to save for retirement. He bought his ticket at McArthur Shell in North Little Rock.



Samantha Griffin-Shelton bought a \$2 Duck Dynasty instant ticket from Dollarway Mart in White Hall and won \$20,000.



Samuel Gustafson won big bucks - \$75,000 – by playing a \$3 Extreme Jumbo Bucks Crossword instant ticket, which he bought from Rose Stop in Springdale.

Mary Swift of Pine Bluff won \$25,000 playing Extreme Jumbo Bucks. She purchased her ticket from Dollar Way Mart in White Hall (also home of the \$20,000 Duck Dynasty winner).



Winners

#	Game Name	Prizes	Entry Deadline	Drawing Date
186	Fantastic 5's Play It Again, Winner: Nedra King, El Dorado	\$25,000	05/06/14	05/12/14
181	EZ Grand Play It Again, Winner: Stephanie Pond, Texarkana	\$100,000	05/06/14	05/12/14
173	Super Crossword Play It Again, Jessica Clark, Perryville	\$50,000	05/06/14	05/12/14
172	Fat Cat Tripler Play It Again, Winner: Arthur Amos, Altheimer	\$20,000	05/06/14	05/12/14
163	Deuces Wild Play It Again. Winner: Denise King, Mount Judea	\$2,000	05/06/14	05/12/14
151	Diamond Mine Play It Again, Winner: Vicki Dale, Batesville	\$50,000	05/06/14	05/12/14
147	Solid Gold Play It Again, Winner: Tonya Baxter, Cabot	\$75,000	05/06/14	05/12/14
119	In the Money Play It Again, Winner: Patrisa Burl, Little Rock	\$100,000	05/06/14	05/12/14



Bruce Harrod of Bethel Heights won a Bad Boy CTZ Elite 60-inch cut mower playing **Points for Prizes** (entering non-winning tickets into The Club Rewards Program). His prize is valued at over \$11,000. He was ready to ride it home and cut the grass. Congratulations, Bruce!

Monthly Schedules

- May
 - Release of supplemental marketing and advertising contract
- June
 - Natural State Jackpot: “Buy \$5 get 1 free ticket”
 - Instant ticket focus groups
- July
 - None planned
- August
 - Retailer rallies
 - Potential retailer incentive instant tickets
- September
 - Quick Draw expected to launch late September
 - Goal is to launch with 250 retailers selling the product (150 traditional and 100 new retailers)
 - Hope to have 400 retailers selling the product by the end of June 2015
 - 5-Year Anniversary instant tickets
 - Instant ticket coupon

Monthly Schedules

○ October

- Walking Dead \$2 ticket
- Special \$10 anniversary ticket
- National premium game, *Monopoly Millionaires Club*
- Withdraw from Decades of Dollars

○ November

- Holiday ticket launch
- Buy X Get Y

○ December

- Holiday tickets

○ January

- Lucky for Life
- Legislative Session begins
 - - Debit cards
 - - Retailer bonding changes

○ February

- New \$20 ticket released

June Promotion

SPECIAL PROMOTION

Available June 1 through June 30.

BUY \$5



**Natural State
JACKPOT**

GET \$1



FREE

For more information on games or odds, visit any lottery retailer, mykansaslottory.com, or call 501-683-2000. Call 1-800-522-4700 for problem gambling helpline. Please play responsibly.

SPECIAL PROMOTION

Available June 1 through June 30.

BUY \$5



GET \$1



FREE

**Natural State
JACKPOT**

For more information on games or odds, visit any lottery retailer, mykansaslottory.com, or call 501-683-2000. Call 1-800-522-4700 for problem gambling helpline. Please play responsibly.

Arkansas Lottery Commission
Budget Detail Schedules
For the Fiscal Year Ending June 30, 2015

	2013 Audited	% of Revenue	2014 Budget (Original)	% of Revenue	2014 Budget Revised 01/2014	% of Revenue	2015 Budget	% of Revenue	Explanation for Change in Budget Amounts
Operating Revenues:									
Instant Games	\$ 355,061,785	80.676%	\$ 375,000,000	81.559%	\$ 324,907,460	77.714%	\$ 331,750,000	77.281%	Instant Game sales are forecast approximately \$40 million below the F2014 budget, but are forecast to increase slightly from the revised FY2014 budget.
On-Line Games	84,486,209	19.197%	84,500,000	18.378%	92,858,087	22.211%	97,206,000	22.644%	Online game revenues are forecast to increase due primarily to sales from new games
Less: Promotions Discount	-	0.000%	(250,000)	-0.054%	(250,000)	-0.060%	(250,000)	-0.058%	Promotional discounts remain at the same level as FY2014
Retailer application, fidelity	556,792	0.127%	530,000	0.115%	553,583	0.132%	560,000	0.130%	Retailer communication and licensing fees reflect an increase consistent with the estimated FY2014 level
Non Gaming Revenue	4,490	0.001%	10,000	0.002%	10,000	0.002%	10,000	0.002%	Other miscellaneous revenues are consistent with estimated FY2014.
Total Operating Revenues	440,109,276	100.000%	459,790,000	100.000%	418,079,130	100.000%	429,276,000	100.000%	
Operating Expenses:									
Instant Game Prizes	250,246,337	56.860%	264,200,000	57.461%	226,753,686	54.237%	237,022,500	55.214%	Decrease in instant games prizes is proportionate to the decrease in instant games revenues
On-Line Game Prizes	41,877,845	9.515%	42,461,250	9.235%	50,490,758	12.077%	52,000,600	12.114%	Online games prizes increase is proportionate to the increase in online games revenues
Retailer Commissions	24,986,551	5.677%	25,982,000	5.651%	23,924,657	5.723%	24,007,600	5.593%	No significant change in percentage paid to retailers. Amount also reflects \$250,000 for retailer bonuses which is the same as for FY2014. Forecast decrease is consistent with decrease in revenues.
Gaming Contract Costs	22,116,163	5.025%	23,664,250	5.147%	21,218,085	5.075%	21,117,000	4.919%	No significant change in percentage paid to gaming vendors. Lower FY2015 budget amount is due primarily to decrease in ticket revenues
Staff Compensation & Benefits	6,049,048	1.374%	6,350,000	1.381%	5,780,332	1.383%	6,450,000	1.503%	Increase relates to the forecast to backfill five to seven currently vacant positions and estimating a 3% merit bonus for FY2015. Also a 1% COLA increase is projected.
Marketing, Advertising & Promotions	4,414,655	1.003%	4,500,000	0.979%	4,499,223	1.076%	5,000,000	1.165%	\$500,000 increase is to be used to promote 5 Year Anniversary plan.
General and administrative expenses	1,231,212	0.280%	1,370,000	0.298%	1,388,301	0.332%	1,420,000	0.331%	Increase for FY2015 is due to expected increases for lease costs and DIS fees.
Services Provided by Other Agencies:	936,736	0.213%	1,550,000	0.337%	1,117,411	0.267%	800,000	0.186%	The ADHE administrative fees are budgeted for \$650,000, as the actual fees billed for FY2014 were \$615,000. An additional \$150,000 is budgeted for Legislative Audit fees for the annual audit.
Legal and Professional Services	22,507	0.005%	25,000	0.005%	12,674	0.003%	10,000	0.002%	Decrease in the budget for legal and professional services is due to the hiring of a full time Chief Legal Counsel position
Capital asset depreciation	182,158	0.041%	185,000	0.040%	183,343	0.044%	210,000	0.049%	Increase reflects impact of the purchase of approx. \$125,000 of depreciable assets which is expected to occur in FY2015
Total Operating Expenses	352,063,212	79.994%	370,287,500	80.534%	335,368,470	80.217%	348,037,700	81.076%	
Operating Income	88,046,064	20.006%	89,502,500	19.466%	82,710,660	19.783%	81,238,300	18.924%	
Non-Operating Revenue (Expense):									
Interest Income	322,722	0.073%	240,000	0.052%	270,027	0.065%	140,000	0.033%	Based upon an average balance of approximately \$27 million at 55 basis points
Other Non-Operating Income	-	0.000%	-	0.000%	0	0.000%	-	0.000%	No non-operating income for FY2015 is identified
Income before Transfers	\$ 88,368,786	20.079%	\$ 89,742,500	19.518%	\$ 82,980,687	19.848%	\$ 81,378,300	18.957%	
Transfers To:									
Arkansas Department of Health Services	(200,000)	-0.045%	\$ (200,000)	-0.043%	\$ (200,000)	-0.048%	\$ (200,000)	-0.047%	This amount is specified by statute
ADHE Education Trust Account (Regular)	(85,216,747)	-19.363%	(84,241,200)	-18.322%	(77,000,790)	-18.418%	(75,500,000)	-17.588%	This is the amount of the expected transfer of Net Proceeds to ADHE for F2014
Unclaimed Prizes Reserve-transferred at June 30 by statute	(5,040,414)	-1.145%	(5,258,800)	-1.144%	(5,779,897)	-1.382%	(5,700,000)	-1.328%	
Total Transfers to ADHE Education Trust Account	(90,257,161)	-20.508%	(89,500,000)	-19.465%	(82,780,687)	-19.800%	(81,200,000)	-18.916%	
Change in Net Assets	(\$ 2,088,375)	-0.475%	\$ 42,500	0.009%	\$ 0	0.000%	(\$ 21,700)	-0.005%	