

MINUTES
ARKANSAS LOTTERY COMMISSION
Wednesday, March 9, 2011
1:00 p.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 Smith, Pickard, Campbell, Hammons, and White, and Commissioners Malone and Ward-Jones by conference call. The ASL was represented by Director Passallaigue, Internal Auditor Hyde, David Barden, Ernestine Middleton, Bishop Woosley, Julie Baldrige, Patricia Vick, Lance Huey, Whitney Hall, and Valerie Basham.

Chairman Lamberth requested approval of the minutes of the February 9, 2011, meeting, and after motion of Commissioner White, seconded by Commissioner Pickard, the minutes were approved unanimously.

Chairman Lamberth introduced a special guest, Ms. Linda Saferin, a Mena native and now of Atlanta, co-founder of MDI Entertainment, LLC, with her husband Steve. MDI was acquired by Scientific Games and is now a wholly-owned subsidiary of the ASL's instant ticket vendor. MDI is the world leader in providing game and promotional entertainment for use by the worldwide lottery industry. Established in 1986, MDI began marketing licensed games to lotteries in 1996 and since has built a licensed property portfolio of extraordinarily popular licensed, patented or otherwise copyrighted properties for which MDI holds exclusive lottery licensing rights, including some of the world's best known and most loved symbols of entertainment and pop culture, such as Harley Davidson and Monopoly. Ms. Saferin greeted the Commission and attendees and complimented her home state on the quality and accomplishments of the ASL.

Director Passallaigue presented his report and the budget for Fiscal Year 2012 to the Commission (included in file). He noted that the ASL has grossed about \$3.9 Million in unclaimed prizes this Fiscal Year, and referenced periods of enhanced sales during high multi-state jackpots and introduction of new instant tickets. He outlined future possibilities in lottery products, including a World Game that may be composed of lotteries from Canada, France, the United States, the United Kingdom, and Australia; a premium game in the United States, *Decades of Dollars*, and a \$20 instant game in Arkansas. He said he hoped to see a growth of draw games as a percentage of sales with a possible 80/20 mix. Commissioner Lamberth endorsed the idea of providing a free *Cash 3* or *Cash 4* ticket with the purchase of other tickets as a way to introduce players to these two games. Discussion followed. The Director said the top factor in meeting the staff's sales goals is to increase the number of licensed retailers. He said that management was looking at ways to increase the number, including a reduction of the weekly communication charge to \$5. He also said plans included a monthly 50/50 Raffle and discussed having all Ticket Vending Machines (TVM) deployed by the end of Fiscal Year 2012, noting that recent negative publicity had created some reluctance among potential new retailers to deploy the TVMs. Commissioner Pickard's motion to approve the Director's FY2012 budget was seconded by Commissioner White. Commissioner Smith inquired whether the Commission was required to adopt a budget. It was stated that a budget must be submitted to the Legislative Oversight Committee (LOC) by March 15 and that such budget can be amended later. Commissioner Smith asked that a statement be attached that the budget is based on

current law and an expectation of the adoption of pending LOC-produced legislation. The Commission unanimously adopted Commissioner Pickard's motion to approve.

Director Passailaigue presented to the Commission the policies and responses (included in file) to the Office of Personnel Management letter and said copies would be sent to Commissioners Ward-Jones, Shipp, and Malone. Commissioner Hammons said that he would call a meeting of the Personnel Committee before the next meeting to review the letter.

Mr. Woosley presented the *Decades of Dollars* contract. He acknowledged that it could not be implemented without legislative passage of changes to the current law regarding unclaimed prizes and asked the Commission to approve implementation contingent upon passage of the bill. It was pointed out that Virginia, Kentucky and Georgia were currently offering the game. The price point of *Decades of Dollars* is \$2 and its prize percentage cost is approximately 54.2%. Commissioner White asked for more time to review the contract, although he said he was likely to support it. Commissioner Smith asked about operational procedures and Mr. Barden said they were in place. He also pointed out that it would take up to two months to print the play slips, therefore Commission approval in advance would be sufficient assurance for the vendor to move forward on printing. Commissioner Ward-Jones asked about the legislative prospects for the bill, and Mr. Woosley pointed out that the change was sponsored by the entire Legislative Oversight Committee. The Commissioners reached consensus to further discuss the contract in a conference call Commission meeting on Friday, March 11, at 10 a.m.

Mr. Woosley presented a legislative report noting that 29 bills had been filed that name or affect the Lottery. He gave a summary of many of those. The Legislature is anticipated to adjourn in April.

The Commission considered changes to the Retailer Rules presented by the staff. The changes were as follows: reduction of the weekly retailer communication fee to \$5, from \$10; the removal of the clause referring to "the first operational year" in Paragraph 4.2; and the issuance of licenses on a two-year basis, previously a one-year basis, for the same licensing fee. Following discussion, and by motion of Commissioner Smith, seconded by Commissioner Hammons, to begin the process to amend the Retailer Rules to reflect the above changes, the Commission voted unanimously to do so.

Next, David Barden introduced Mr. Edgar Kully, a representative of Crestwood Associates, a market research firm, who presented the results of a survey of lottery players in Arkansas (included in file). He reported that 42 percent of Arkansas adults responded that they had participated in the Arkansas lottery since the first tickets were sold in September 2009. He said the most popular games are the instant or "scratch" games. He noted that 77 percent of lottery participants support the idea of lottery proceeds going to a good cause, 89 percent of all players are 25 years or older and 74 percent of players come from households with an income of \$25,000 or greater. He said that only 2 percent of the players had negative opinions about the lottery.

Director Passailaigue discussed the staff recommendation to introduce a \$20 price point instant ticket in May. The Director stated this would broaden the demographic profile of the instant ticket player and raise additional monies to fund scholarships. Discussion followed and there were no objections noted.

Internal Auditor Hyde presented an extensive Audit report (included in file). He said that in following up on the Legislative Audit report, and that five of 13 findings were completely cleared, 19 of 30 objectives had been met, and work was continuing.

The Commission next accepted by motion of Commissioner Campbell, seconded by Commissioner Ward-Jones, the terms of compensatory time repayment offered in writing (included in file) by Mr. Barden and Ms. Middleton.

Commissioner Malone said that he would soon schedule a meeting of the Audit Committee to review the Three-Year Audit Plan.

Commissioner Lamberth announced her intention to appoint three new members of the Retailer Advisory Board—Mallory Nimocks of Forrest City, Nimocks Oil Company, to a term expiring at the end of 2012; Shane Patterson of West Memphis, Flash Markets, to a term expiring at the end of 2012; and Bill Waite of Fayetteville, Dickson Street Liquor, to fill the term of Sarah Diebold, whose term expires at the end of 2011—and to reappoint members Terri Brewer of Plumerville, Kroger, whose second term expires in 2012; Connie Townsley of Batesville, White River Petroleum/T-Mart, whose second term expires in 2012; and Joe Dan Yee, RAB Chairman, of Lake Village, Yee's Foodland, whose second term expires in 2012. These appointments, by motion of Commissioner White, seconded by Commissioner Campbell, were unanimously confirmed by the Commission.

The Chair next asked all Commissioners to submit information for the ineligible player list as it is now outlined under a new Arkansas law. She then convened an Executive Session to continue the evaluation for merit pay. Upon emerging from Executive Session shortly thereafter, the Chair announced that the Commission had discussed merit pay increases for its two direct employees, the Director and the Internal Auditor. She said that Director Passailaigue had asked not to be considered for a merit increase. By motion of Commissioner Malone, seconded by Commissioner Pickard, the Commission authorized the maximum merit pay increase for the Internal Auditor.

The Commission then adjourned, with an emergency meeting planned to discuss the *Decades of Dollars* contract on Friday, March 11, at 10 a.m., and with the next regular meeting scheduled for May 11.

MINUTES
ARKANSAS LOTTERY COMMISSION
Emergency Meeting
Friday, March 11, 2011
10:00 a.m
ALC Conference Room
First Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order. In attendance also were Commissioners Pickard, Shipp, Hammons, Malone, Ward-Jones and White, all by conference call. The ASL was represented by Director Passailaigue, David Barden, Bishop Woosley, Julie Baldrige, and Patricia Vick.

Director Passailaigue said that the *Decades of Dollars* agreement was similar to other multi-state agreements of the ASL, mentioning cost- and prize-sharing terms. He said that the significant difference is the rule regarding unclaimed prizes and that all versions of the LOC's unclaimed prizes measure addresses the issue and would allow this agreement. He asked approval of the contract contingent upon enactment of one of these measures. It was noted that all include an emergency clause which would make them effective immediately upon signature of the Governor.

Commissioner Ward-Jones inquired about the profitability. The Director responded that it would be a profitable niche game, with different draw days from Mega Millions and Powerball (Monday and Thursday), creating draws on six out of seven days of the week. Commissioner White thanked the Director for supporting the extra time for the Commissioners to consider the contract. By motion of Commissioner White, seconded by Commissioner Malone, the Commission voted unanimously to accept the contract as proposed.

Mr. Woosley said he would keep the Commissioner informed on the progress of the unclaimed prizes legislation. The Director said that *Decades of Dollars* play slips would be printed by Intralot because of the Commission's positive vote.

The meeting was adjourned.

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

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

Section 4. Retailer License.

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

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

4.2 License Term and Renewal. A retailer's license remains in full force and effect until the termination date indicated upon the license, but in no case more than two one (21) years from the date of the issuance of the license, ~~the first operational year excepted.~~ The Director may implement a program to issue licenses biennially, if in his or her discretion, it provides more efficient customer service to retailers and cost savings in the administration of the program. To request renewal of a retailer license, every licensed retailer shall file a renewal application and shall pay a renewal fee as set forth in Section 3.3 of these rules. A license shall not be issued or renewed until the retailer contract is signed.

Arkansas

Scholarship Lottery

Commission Meeting

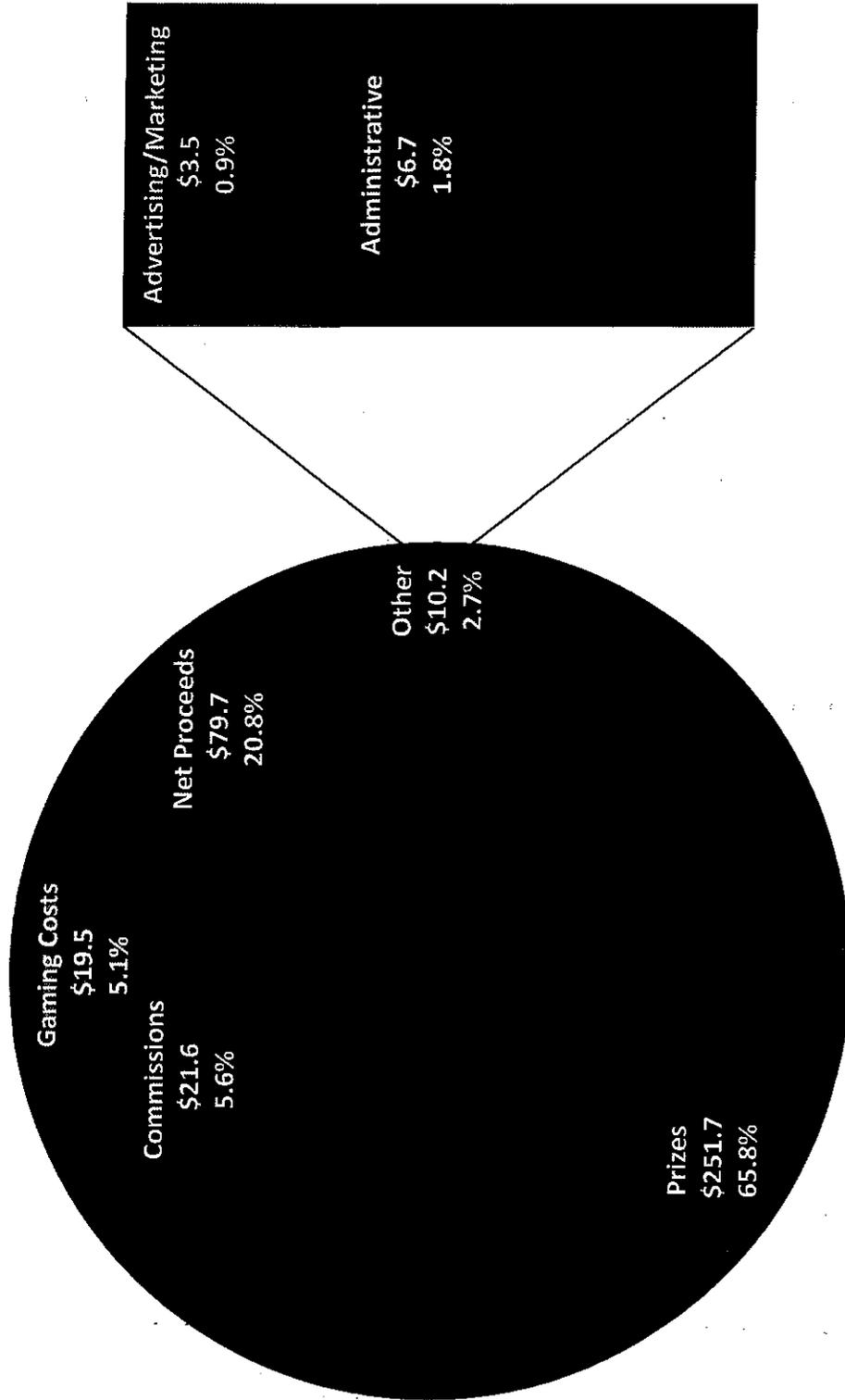
May 11, 2011

The Lottery Dollar

Ten Months Ended April 30, 2011

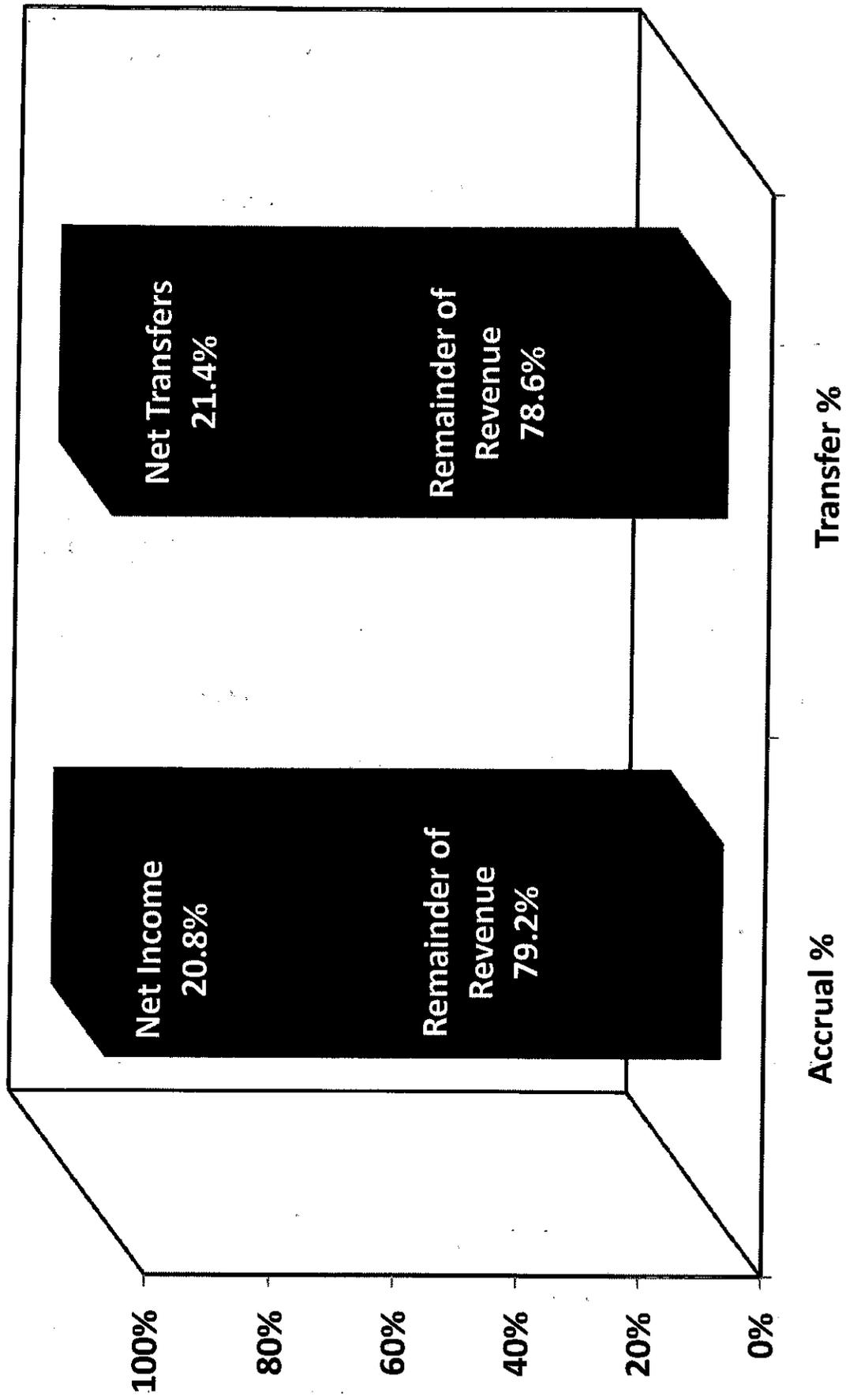
(Unaudited)

Total Revenue \$382.7 Million



(Totals Expressed In Millions)

Accrual Versus Transfer Percentage



Instant Sales As A Percentage Of Total Sales

Where Does Arkansas Stand?

State	Percentage	State	Percentage
Arkansas First in Instant/Last in Online	84%	Wisconsin	57%
Tennessee	79%	California	56%
Texas	74%	Ohio	56%
Vermont	74%	Florida	55%
Maine	71%	Illinois	55%
New Hampshire	70%	New Mexico	55%
Minnesota	69%	Nebraska	53%
Massachusetts	68%	New York	53%
Georgia	67%	Kansas	52%
Missouri	66%	New Jersey	52%
Colorado	65%	Oklahoma	50%
South Carolina	65%	Virginia	50%
Arizona	63%	South Dakota	45%
Idaho	63%	Louisiana	39%
Indiana	63%	Oregon	37%
Connecticut	61%	Rhode Island	33%
Kentucky	61%	Michigan	32%
Washington	60%	Montana	32%
Iowa	59%	Delaware	31%
North Carolina	58%	Maryland	29%
Pennsylvania	58%	District of Columbia	23%
West Virginia	57%	North Dakota	0%
		National Average	58%

Source: LaFleur's Magazine 2010

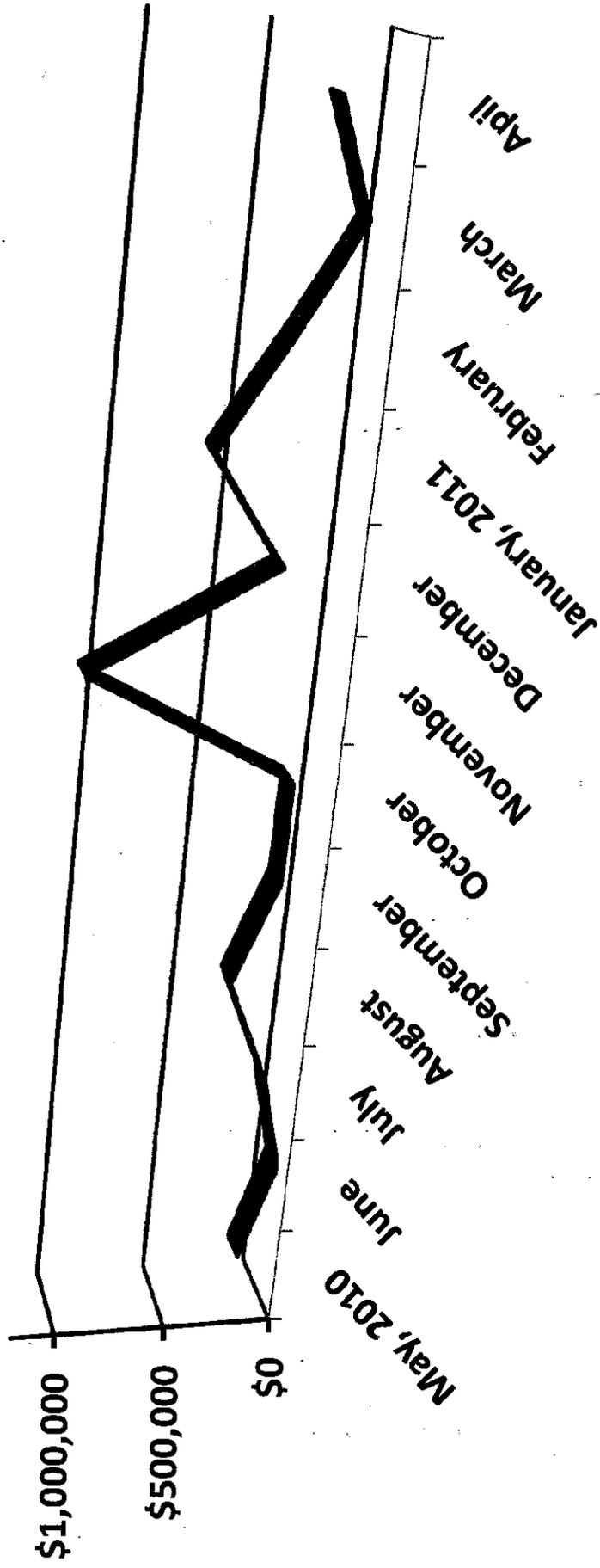
Instant Sales Per Capita Where Does Arkansas Stand?

<u>State</u>	<u>Percentage</u>	<u>State</u>	<u>Percentage</u>
Massachusetts	\$ 453.33	Michigan	\$ 75.89
Georgia	\$ 246.53	Indiana	\$ 75.25
New York	\$ 183.27	Rhode Island	\$ 69.64
Connecticut	\$ 173.66	Colorado	\$ 66.56
New Jersey	\$ 153.70	Minnesota	\$ 65.70
Tennessee	\$ 146.24	Idaho	\$ 60.67
Pennsylvania	\$ 145.13	West Virginia	\$ 58.61
South Carolina	\$ 142.33	Arizona	\$ 53.77
Arkansas	\$ 133.55	Iowa	\$ 51.50
Ohio	\$ 124.70	Wisconsin	\$ 48.47
New Hampshire	\$ 121.85	California	\$ 47.52
Vermont	\$ 120.17	Kansas	\$ 45.75
Maine	\$ 119.38	Washington	\$ 44.19
Florida	\$ 115.67	Delaware	\$ 41.78
Texas	\$ 111.53	New Mexico	\$ 38.55
Missouri	\$ 107.92	Nebraska	\$ 38.17
Kentucky	\$ 106.49	Louisiana	\$ 32.11
Illinois	\$ 94.59	Oregon	\$ 30.63
Virginia	\$ 92.33	Oklahoma	\$ 26.97
District of Columbia	\$ 88.50	South Dakota	\$ 25.25
North Carolina	\$ 86.21	Montana	\$ 14.70
Maryland	\$ 86.12	North Dakota	\$ -
		National Average	\$108.43

Source: LaFleur's Magazine 2010

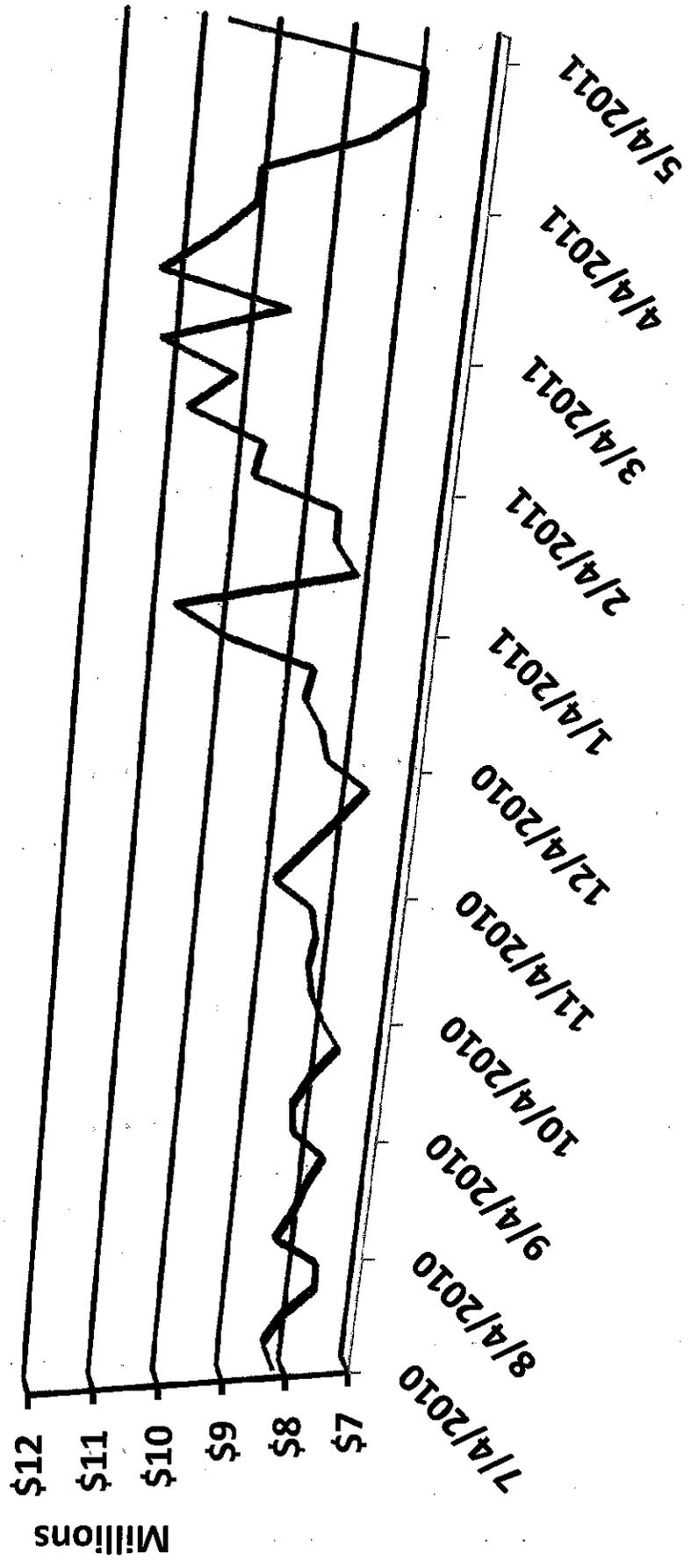
Unclaimed Prizes Trend Analysis

Total Unclaimed Prizes To Date \$3,438,750
Budgeted Unclaimed Prizes FY '11 \$8,423,190



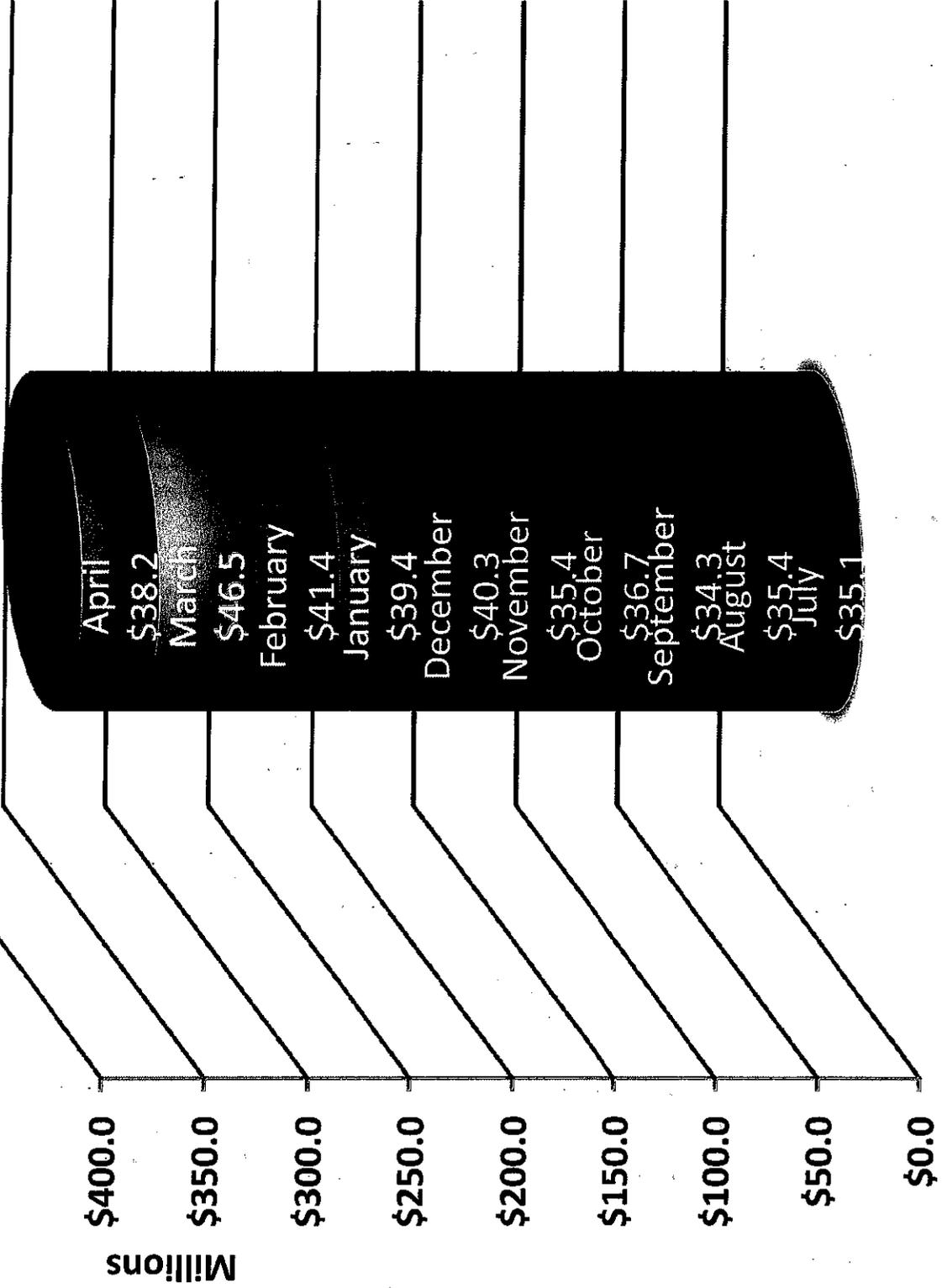
Weekly Sales Trend

7/01/10 - 05/08/11

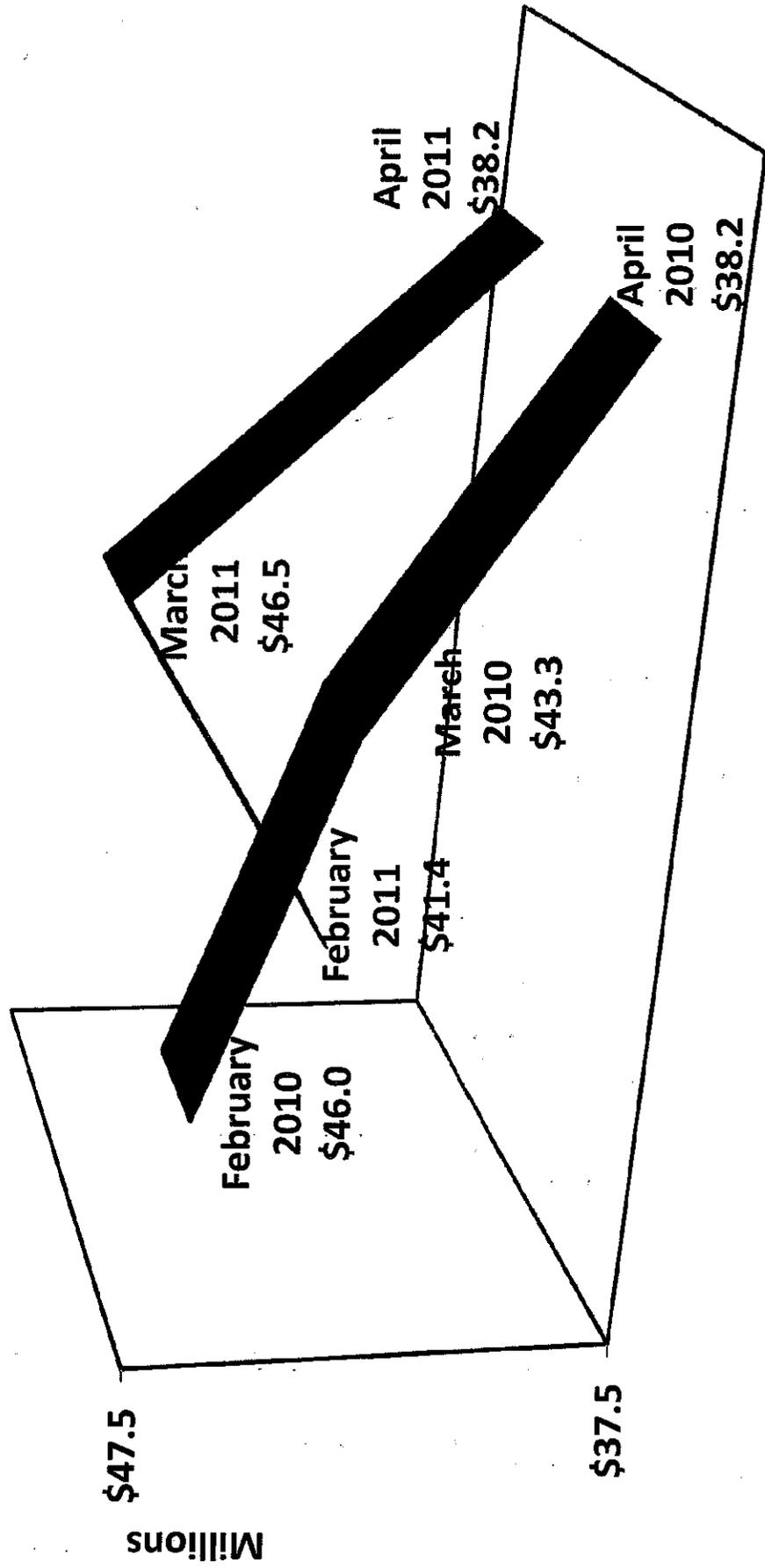


Monthly Revenue Trend

(\$382.7 Million)

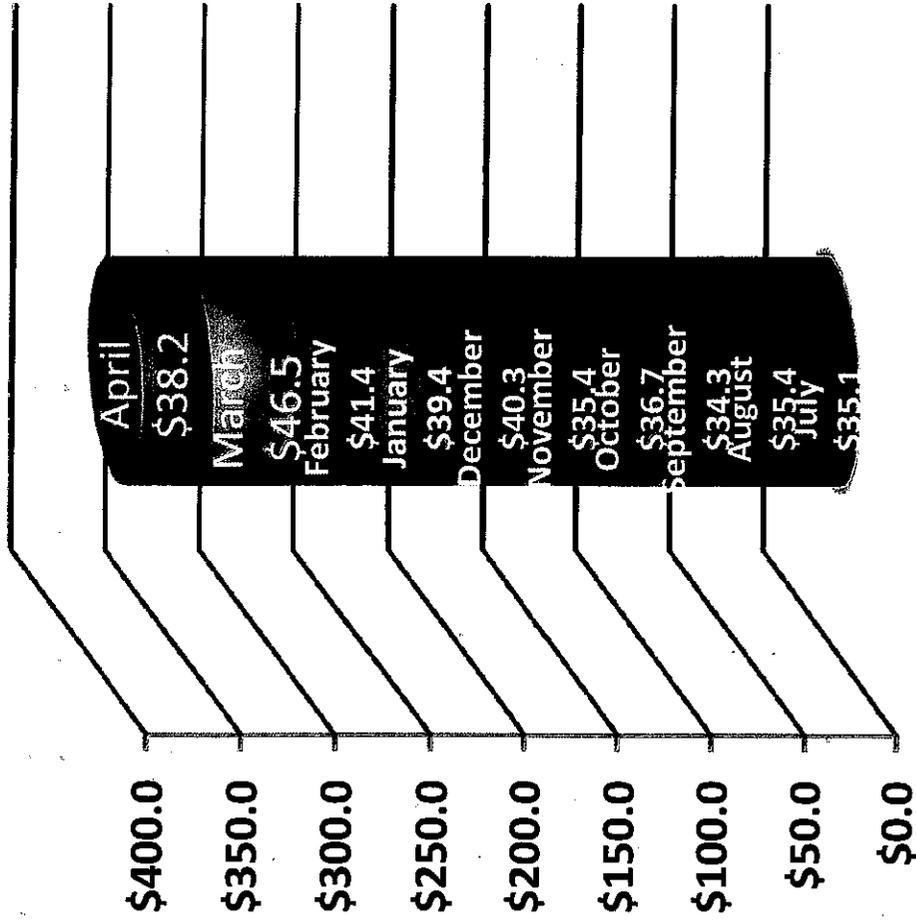


Revenue Trend Line Comparison February-April 2010/2011

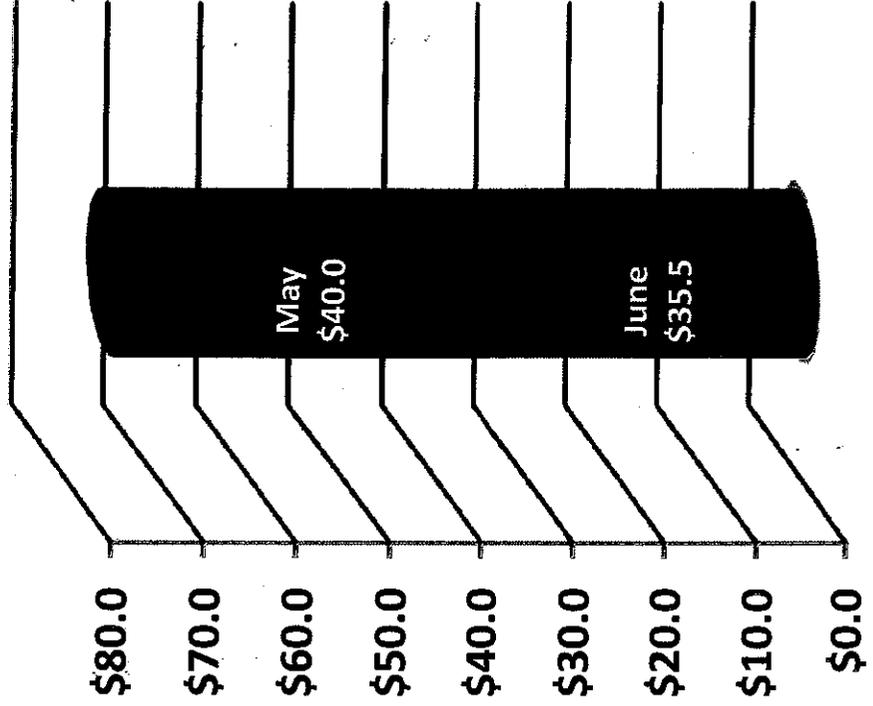


Monthly Revenue Trend

Fiscal Year '11
\$384.7 Million



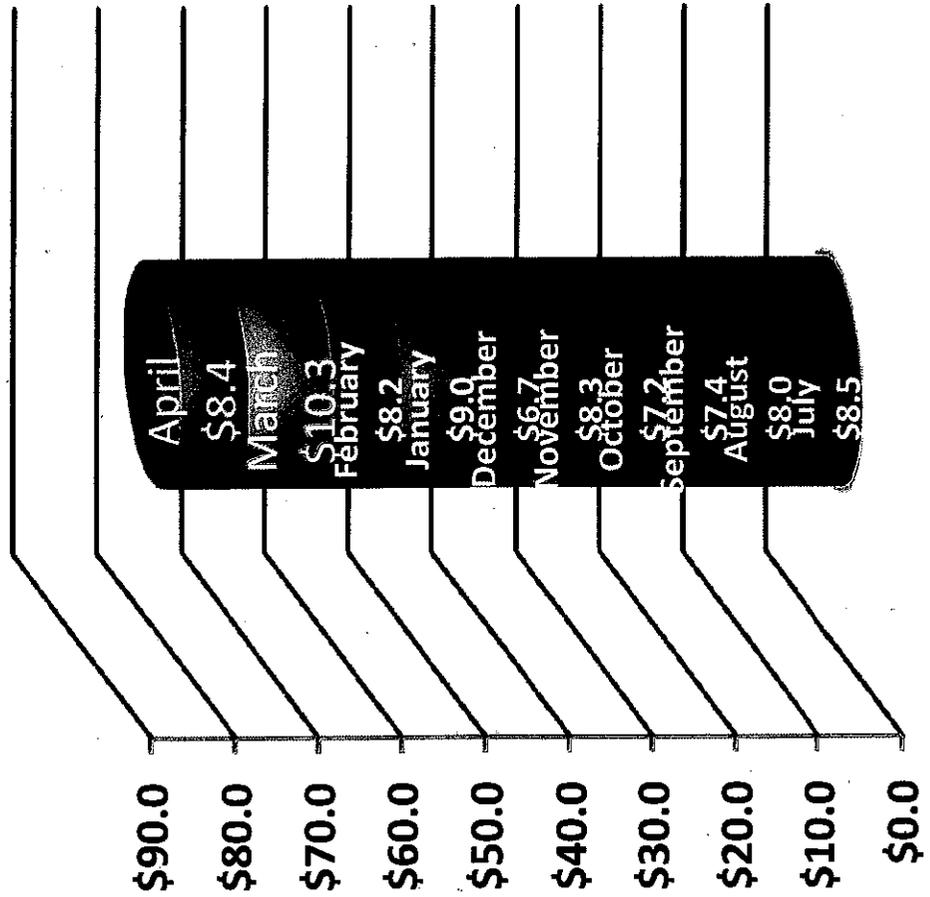
Fiscal Year '10
\$75.5 Million



Monthly Transfer Trend

Fiscal Year '11
\$82.0 Million

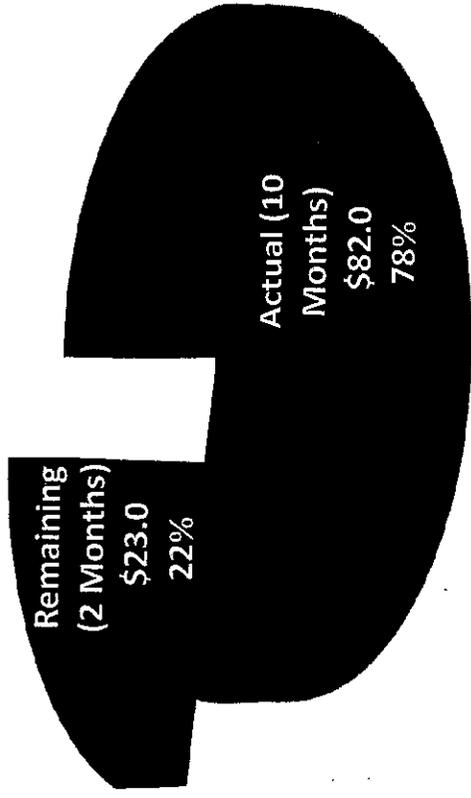
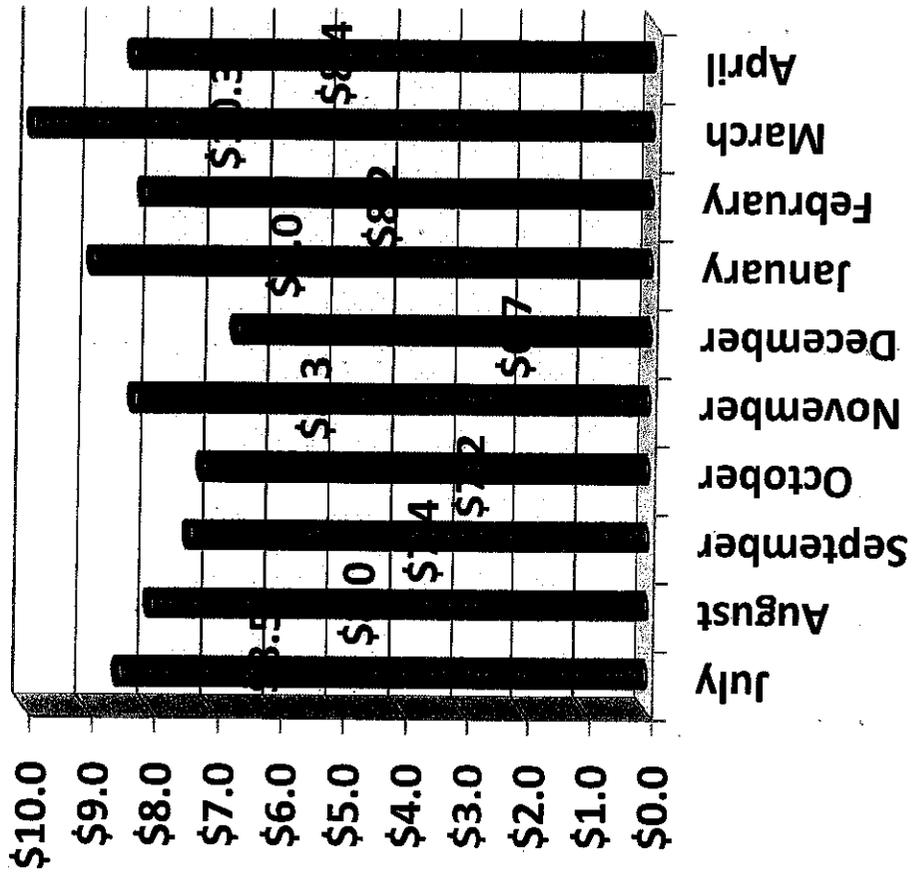
Fiscal Year '10
\$15.2 Million



FY '11 Transfer Trend Analysis

(In Millions)

Transfers FY'11



Arkansas Lottery Commission Internal Audit
Fiscal Years 2012 – 2014 Audit Plan
Discussion Points

- Act 207 of 2011 requires the Lottery Commission to approve a formal, written three-year audit plan by July 1, 2011 and annually review the audit plan. The plan was presented to the Audit Committee on May 4, 2011.
- The Audit Universe for the Fiscal Year 2012 – 2014 Audit Plan includes 41 potential projects. The projects were determined by Internal Auditor review and analysis and input from Executive and Director level management.
- The Internal Auditor proposes that the following eight projects be performed on an annual basis:
 1. Instant Ticket Quality Review
 2. High-Tier Prize Payments Documentation Review (Claims Centers)
 3. Retailer Sweeps (Weekly Sales Receipts)
 4. Revenues and Prize Payments – Online Games
 5. Revenues and Prize Payments – Instant Tickets
 6. Education Trust Fund Accounts
 7. Employee Travel Reimbursements
 8. Marketing Sales Representatives (MSRs) Personal Vehicle Mileage Reimbursements
- The remaining 33 projects in the audit universe will be prioritized by considering risk-based analysis, available resources, and internal auditor judgment.

Arkansas Lottery Commission Internal Audit
Fiscal Years 2012 – 2014 Audit Plan
Discussion Points

- The risk-based analysis included:
 - Financial Impact on Lottery Proceeds
 - Previous Audits (Internal and External)
 - Executive Management Input
 - Reputation Risk
 - External Audit Exposure
 - Director Level Management Input
 - Business Changes
 - Complexity

- In determining the time available for the audit universe projects, the following was considered:
 - Administrative
 - State Holidays
 - Vacation and Sick Leave
 - Administrative Duties
 - Reports, Meetings, Presentations, Assistance, and Continuing Professional Education:
 - ALC Meetings
 - ALC Audit Committee Meetings
 - Lottery Legislative Oversight Committee (LOC) Meetings
 - Monthly Status Reports (ALC and LOC)
 - ALC, ALC Audit Committee, and LOC Meeting Preparation
 - External Audit Assistance (Legislative Audit)
 - Commission/Management Assistance and Consultation
 - Annual Audit Plan
 - Continuing Professional Education (CPE)
 - Lottery Related Seminars and Presentations
 - Internal Audit Staff Meetings
 - ASL Staff Meetings
 - Special Projects
 - Biennial DFA Fraud Risk Assessment (2012 & 2014)
 - Biennial Instant Ticket Vendor Security Review (2013)
 - Gaming System SSAE 16 Review (Annual)
 - Financial Statement and Comprehensive Annual Financial Report (CAFR) Review

Arkansas Lottery Commission Internal Audit
Fiscal Years 2012 – 2014 Audit Plan
Discussion Points

- The Internal Auditor has determined that in addition to the eight projects that will be performed all three years of the audit plan, a total of four projects per year from the audit universe can be performed with current staffing (12 of 33 projects over a three year period). However, with the addition of a part-time auditor, approximately six or seven audits per year can be completed (19 of 33 projects over a three year period).

- At a later date, the Commission may want to consider additional staffing for the internal audit function. The plan can be revised to account for any extra hours available for audit projects.

- The Audit Committee and Commission will be regularly updated on the status of the audit plan. Revisions to the audit plan are inherent and will be presented to the Audit Committee and Commission for approval.

**ALC Internal Auditor
Audit Universe for FY 2012 - 2014 Audit Plan**

Gaming Operations

Product Development - Cabell

- 1 Instant Ticket Game Development
- 2 Points for Prizes
- 3 Play It Again
- 4 *Instant Ticket Quality Review*

Security - Huey

- 5 Building Security & Controls
- 6 Draw Security & Controls
- 7 Back Office System (BOS) Administration
- 8 Disaster Recovery
- 9 Instant Ticket Warehouse Operations

IT Gaming - Smith

- 10 Multi-State Games Draw Controls & Procedures
- 11 Online Game Development
- 12 IT Gaming Operations
- 13 Instant Ticket Game Loads

Administration

Contracts - Woosley

- 14 Online Games & Gaming System Contract Compliance
- 15 Instant Ticket Lottery Game Services Contract Compliance
- 16 Banking Contract Compliance
- 17 Advertising Contract Compliance

Treasury - Parrish

- 18 Retailer Credits/Adjustments
- 19 Prize Validations & Payments
- 20 Retailer Accounts Receivable
- 21 Retailer Commissions
- 22 Cash Receipts
- 23 *High-Tier Prize Payments Documentation (Claim Centers)*
- 24 *Retailer Sweeps (Weekly Sales Receipts)*

Fiscal - Miley

- 25 Fixed Assets
- 26 Accounts Payable/Purchasing/Expenditures
- 27 Payroll & Leave
- 28 Federal & State Tax Withholding & Reporting
- 29 Unclaimed Prize Fund
- 30 *Revenue/Prize Payments/Reserves - Online Games*
- 31 *Revenue/Prize Payments - Instant Ticket Games*
- 32 *Education Trust Fund Accounts*
- 33 *Employee Travel Reimbursements*
- 34 *MSR Personal Vehicle Mileage Reimbursements*

Human Resources - Basham

- 35 Background Checks
- 36 Human Resource Processes

Information Technology - Vacant

- 37 IT General Controls

Internal Operations - Hudson

- 38 Lottery Vehicles

Licensing - Lee

- 39 License - Applications
- 40 License - Renewals
- 41 Retailer Fidelity Fund

Note - Processes in *italics* will be included on the audit plan all three years and will not be included in the risk assessment process. These processes include areas that encompass instant ticket and online game revenues, instant ticket and online game prizes, the education trust accounts, and instant ticket quality. Because of the materiality of these areas, the Internal Auditor recommends that these processes be reviewed, at a minimum, annually or, in some cases, monthly, quarterly, or biannually. In addition, the Arkansas Lottery Commission has requested that the Internal Auditor review and prepare a schedule of employee travel and Marketing Sales Representatives (MSRs) personal vehicle mileage reimbursements each month.

**Arkansas Lottery Commission Internal Auditor
Three Year Audit Plan
Fiscal Years 2012 - 2014**

Fiscal Year 2012

Special Projects

Facilitate Fraud Risk Assessment required by DFA (Biennially)

Gaming System SSAE 16 Review (Annually)

Financial Statements & Comprehensive Annual Financial Report (CAFR) Review (Annually)

Periodic Reviews

Instant Ticket Quality Reports (Annually)

Revenue/Prize Payments - Instant Ticket Games (Annually)

Retailer Sweeps (Annually)

Revenue/Prize Payments/Reserves - Online Games (Annually)

High-Tier Prize Payments Documentation (Biannual)

Education Trust Funds (Monthly)

Employee Travel Reimbursements (Monthly)

MSR Personal Vehicle Mileage Reimbursements (Monthly)

Audits

Licensing - Applications

Licensing - Renewals

Prize Validations & Payments

Instant Ticket Lottery Game Services Contract Compliance

Back Office System (BOS) Administration (See Note 1)

Instant Ticket Game Loads (See Note 1)

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

**Arkansas Lottery Commission Internal Auditor
Three Year Audit Plan
Fiscal Years 2012 - 2014**

Fiscal Year 2013

Special Projects

Instant Ticket Vendor Security Review (Biennially)
Gaming System SSAE 16 Review (Annually)
Financial Statements & Comprehensive Annual Financial Report (CAFR) Review (Annually)

Periodic Reviews

Instant Ticket Quality Reports (Annually)
Revenue/Prize Payments - Instant Ticket Games (Annually)
Retailer Sweeps (Annually)
Revenue/Prize Payments/Reserves - Online Games (Annually)
High-Tier Prize Payments Documentation Review (Biannual)
Education Trust Fund Review (Monthly)
Employee Travel Reimbursements Schedule and Review (Monthly)
MSR Personal Vehicle Mileage Reimbursements Schedule and Review (Monthly)

Audits

Unclaimed Prize Fund
Points for Prizes
Retailer Accounts Receivable
Online Games & Gaming System Contract Compliance
Draw Security & Controls (See Note 1)
IT General Controls (See Note 1)
Disaster Recovery (See Note 1)

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

**Arkansas Lottery Commission Internal Auditor
Three Year Audit Plan
Fiscal Years 2012 - 2014**

Fiscal Year 2014

Special Projects

Facilitate Fraud Risk Assessment required by DFA (Biennially)
Gaming System SSAE 16 Review (Annually)
Financial Statements & Comprehensive Annual Financial Report (CAFR) Review (Annually)

Periodic Reviews

Instant Ticket Quality Reports (Annually)
Revenue/Prize Payments - Instant Ticket Games (Annually)
Retailer Sweeps (Annually)
Revenue/Prize Payments/Reserves - Online Games (Annually)
High-Tier Prize Payments Documentation Review (Biannual)
Education Trust Fund Review (Monthly)
Employee Travel Reimbursements Schedule and Review (Monthly)
MSR Personal Vehicle Mileage Reimbursements Schedule and Review (Monthly)

Audits

Advertising Contract Compliance
Human Resource Processes
Retailer Commissions
Retailer Credits/Adjustments
IT Gaming Operations (See Note 1)
Play It Again (See Note 1)

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

Presentation to Arkansas Scholarship Lottery Board

May 10, 2011



Scientific Games Properties



Scientific Games and the Lottery Industry



Scientific Games Properties



Scientific Games Background

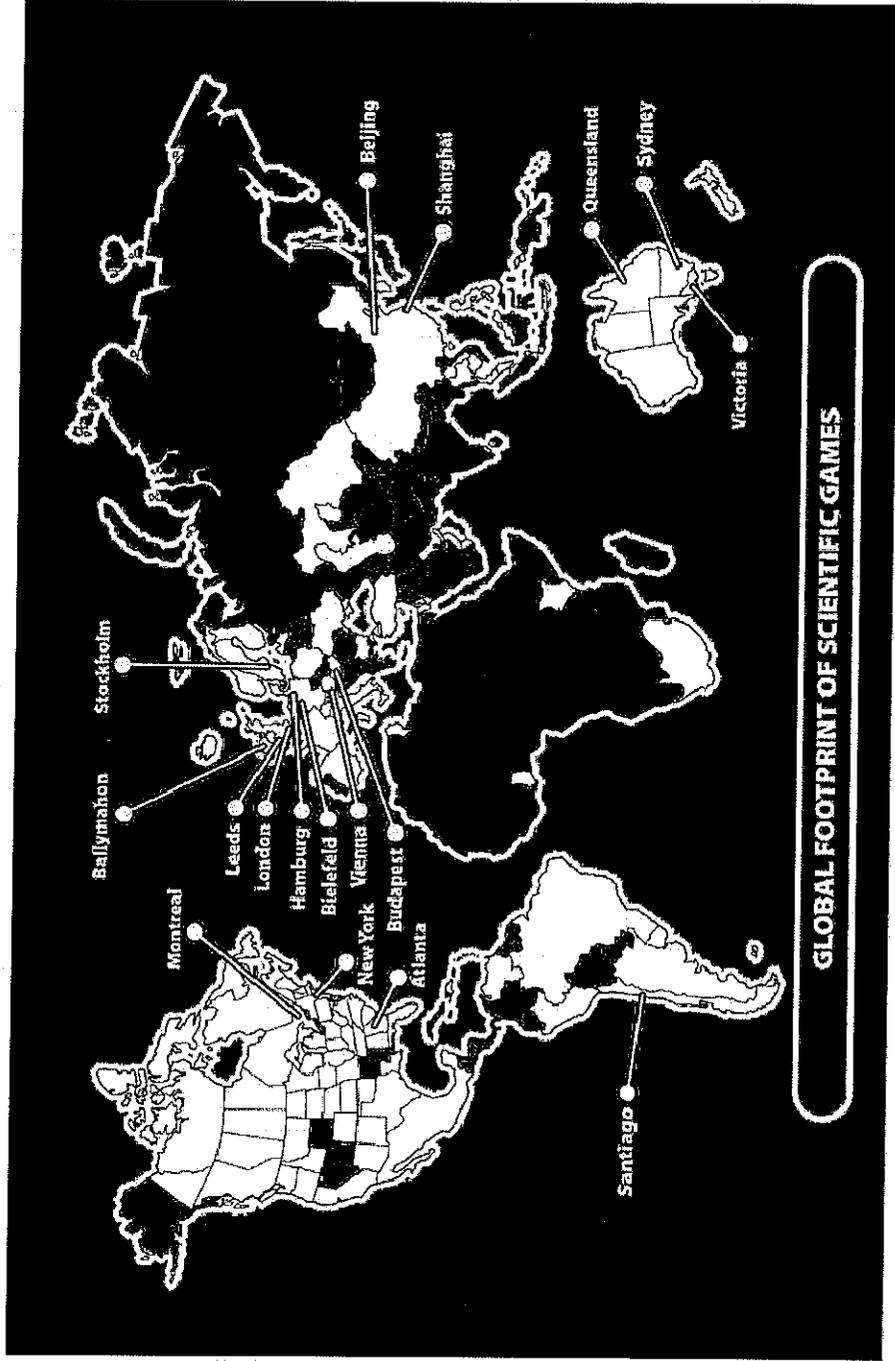
- Company founded in 1973
- 4,000 + employees servicing over 400 customers on six continents
 - Lottery corporate operations managed from our Alpharetta, Georgia campus
 - Seventeen global business offices
- Scientific Games is the most experienced Fullline™ lottery services company
 - First in instant tickets
 - First in game offerings
 - Second in lottery gaming systems
 - Global presence in sports betting and video lottery business



Scientific Games Properties



Scientific Games Worldwide



Scientific Games Properties



MDI Entertainment



Scientific Games Properties



MDI Entertainment Overview

- Worldwide leader in branded Lottery Games
- Founded in 1986
- Began licensed lottery games in 1996
 - Over 85% of all licensed lottery games are MDI brands
- Acquired by Scientific Games in January 2003
 - Implemented games with virtually all U.S. lotteries
- Began providing internet services to the industry in 2001



Scientific Games Properties



MDI Products and Services

- Licensed Properties
 - Traditional instant and online games
 - Linked Games
- Internet Services
 - 2nd Chance Web Sites/Entry Portals
 - Promotional Games
- Players Clubs and Loyalty Programs
 - Properties Plus TM

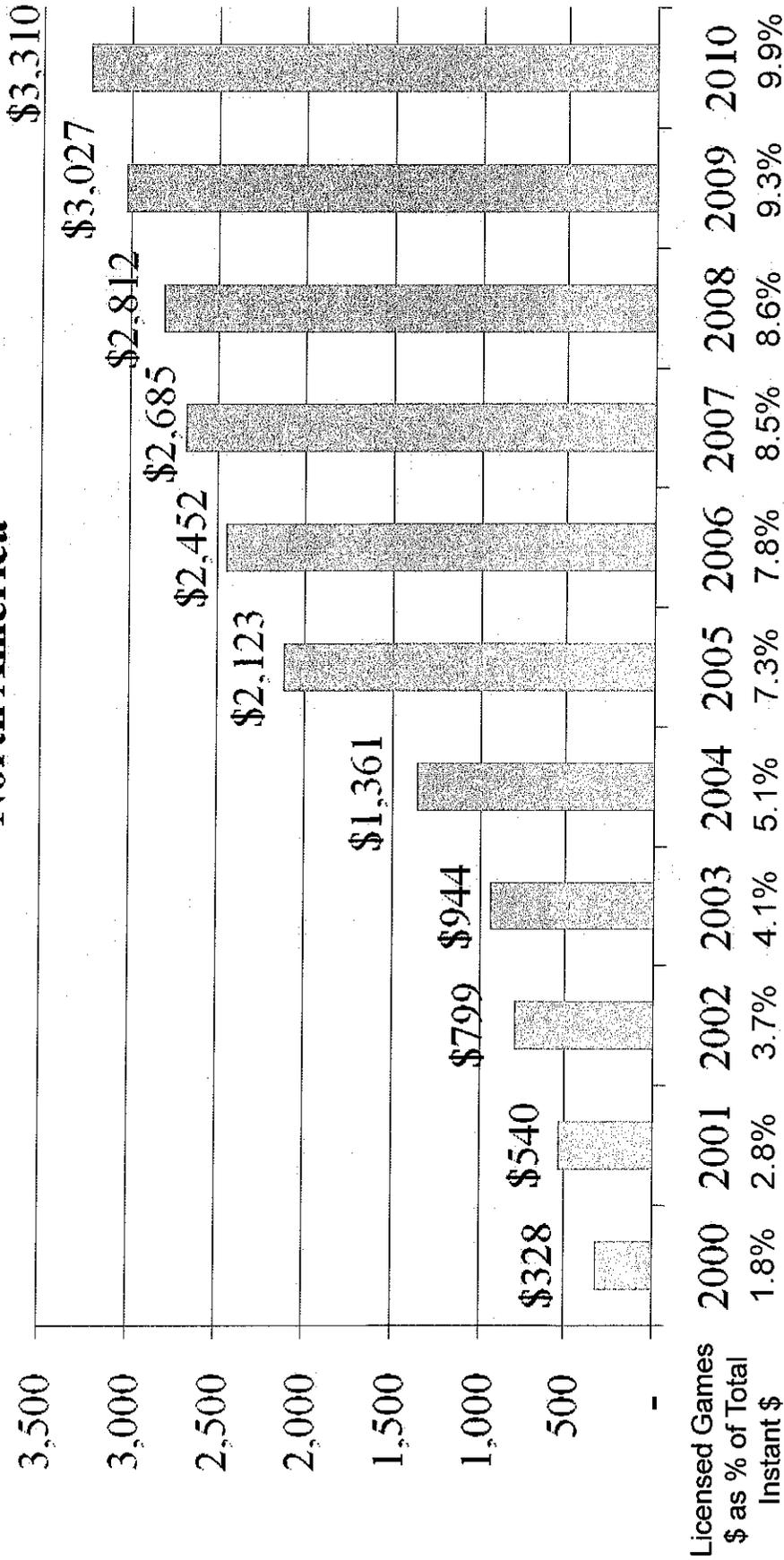


Scientific Games Properties



Growth of Licensed Property Games

Retail Value of Licensed Games Printed (000,000)
North America



Scientific Games Properties



MDI Brand Portfolio



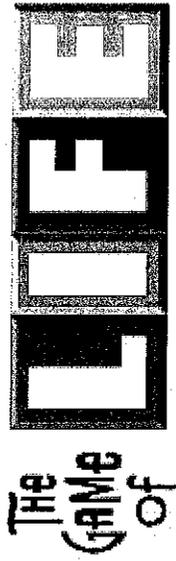
Scientific Properties



Classic Games

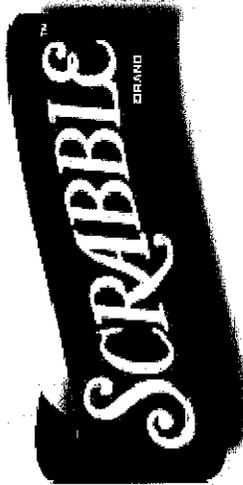


Clue



Twister

BRAND



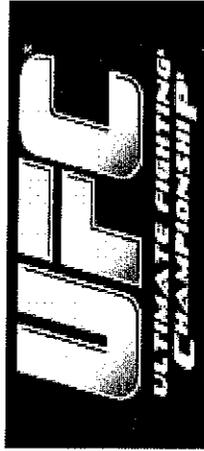
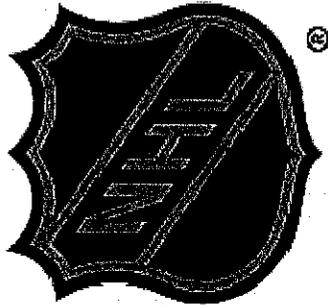
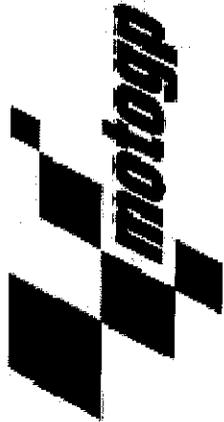
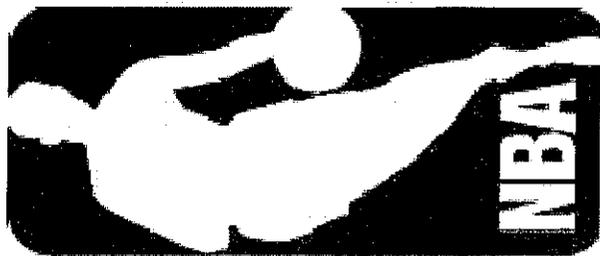
RUBIK'S
CUBE



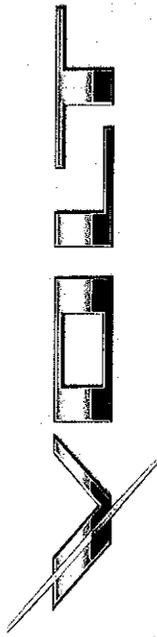
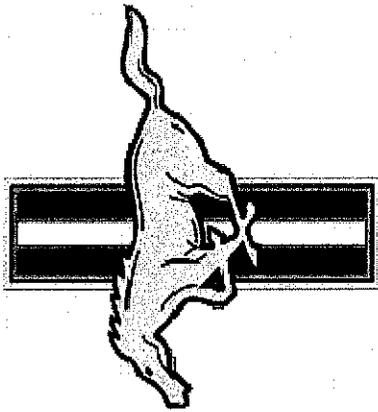
Scientific Games Properties



Professional Sports & Stars



Vehicles



DODGE

Jeep®

Camaro



TRIHIDE®



Scientific Games Properties

Television

CASH
CAB

JEDPARDY!

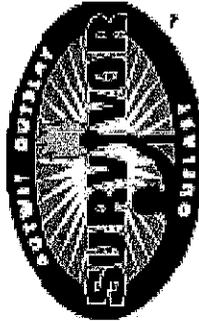
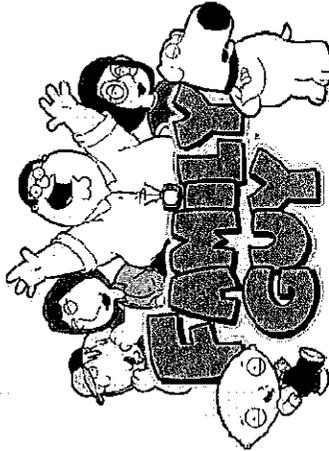
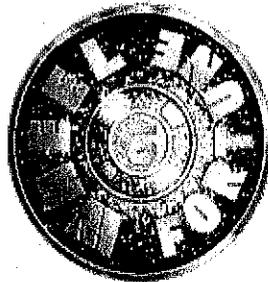
the price is right

DEAL NO DEAL

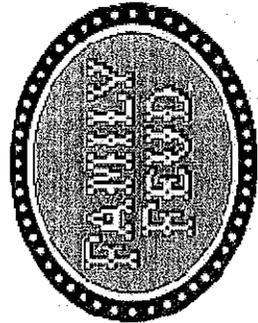
I love Lucy

PRESS YOUR LUCK

CSI: CRIME SCENE INVESTIGATION



LET'S MAKE A DEAL

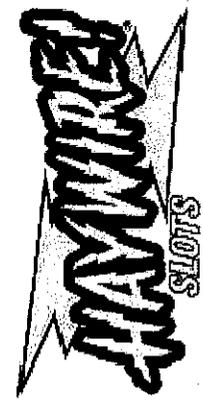
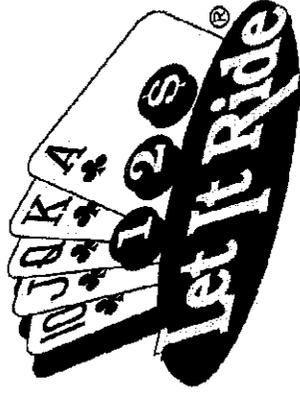
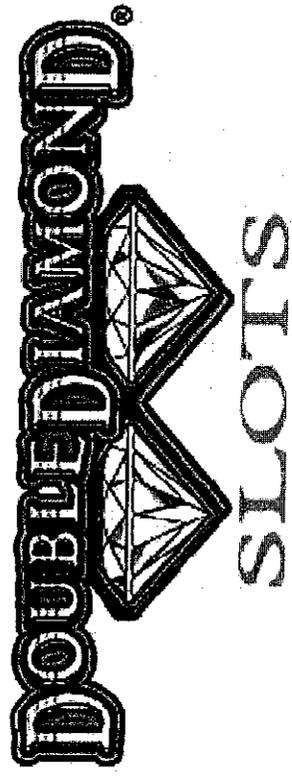
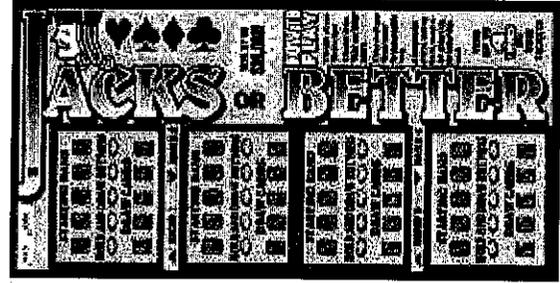
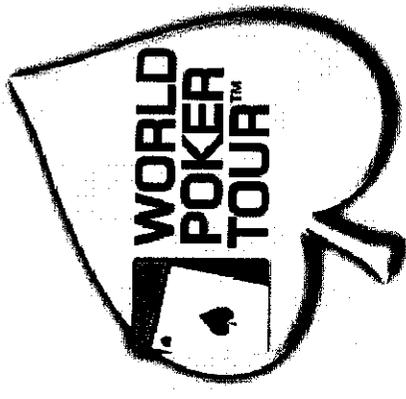
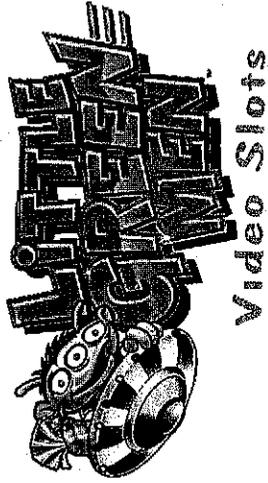


DI

SG
SCIENTIFIC GAMES®

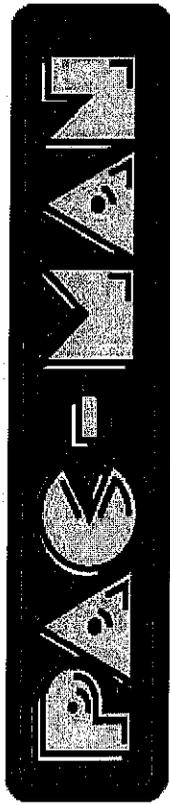
Scientific Games Properties

Slots and Card Games



* JACKS OR BETTER and HOLD 'EM POKER: patented play styles owned by MDI

Arcade & Video Classics



Scientific Games Properties

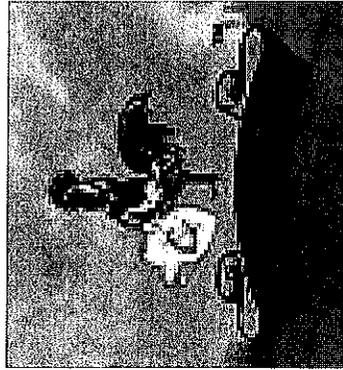
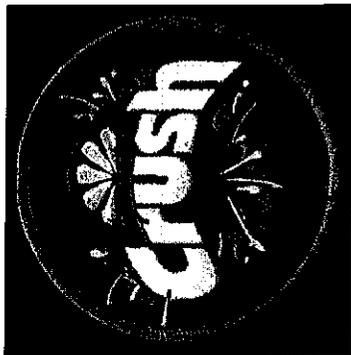
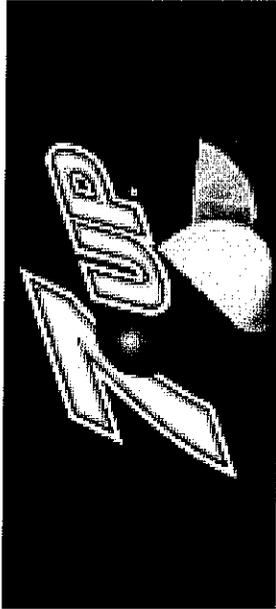


Movies



Scientific Games Properties

Other Popular Consumer Icons



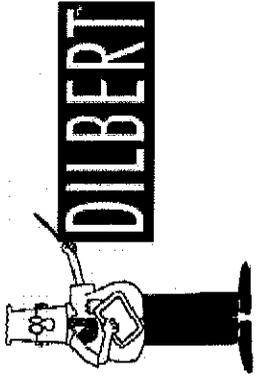
Lotteria



Scientific Games Properties



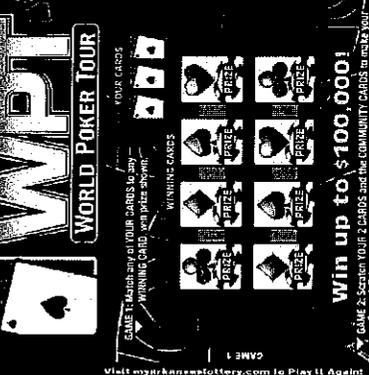
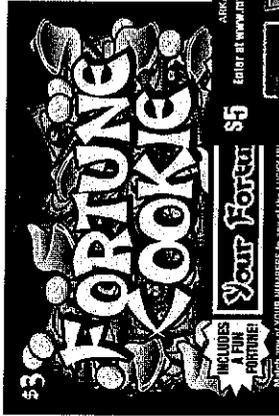
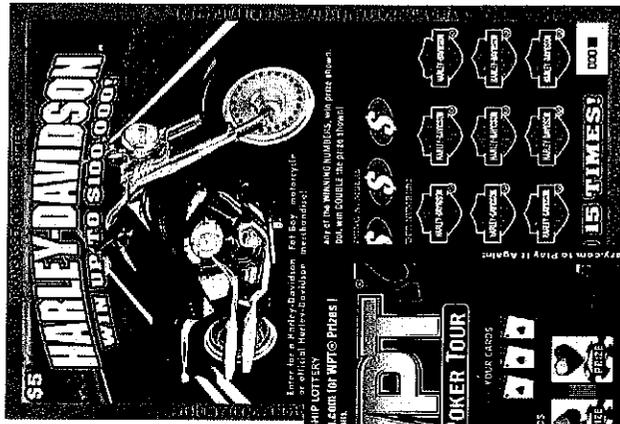
Animated Characters and Personalities



Scientific Games Properties

MDI Licensed Games Introduced to Date Here in Arkansas

- The Price is Right (1/5/10)
 - Game Reordered
- Fortune Cookie (2/2/10)
- World Poker Tour (4/6/10)
- Harley-Davidson (6/29/10)
- Betty Boop (1/4/11)

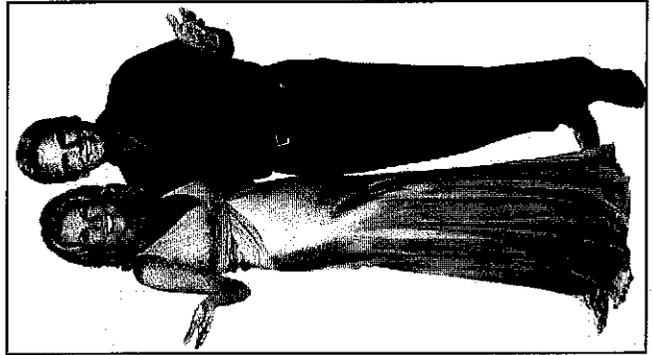


Scientific Games Properties



Coming Soon: Wheel of Fortune

- MDI "Linked Game"
- Players win VIP Hollywood trips
- Chance to play WOF on set with Pat and Vanna



WHEEL OF FORTUNE

Enter to win a chance to play a lottery players - only game of WHEEL OF FORTUNE in Hollywood and win up to \$1 MILLION!

Match any of YOUR LETTERS to any of the WHEEL LETTERS. Get a "W" symbol, win prize shown automatically.

WHEEL LETTERS

PRIZE							
PRIZE							
PRIZE							
PRIZE							

WIN UP TO \$100,000!

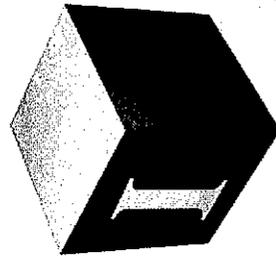
*Non-Broadcast



Scientific Games Properties



MDI



INTERACTIVE

A DIVISION OF MDI ENTERTAINMENT, LLC



SCIENTIFIC GAMES PROPERTIES

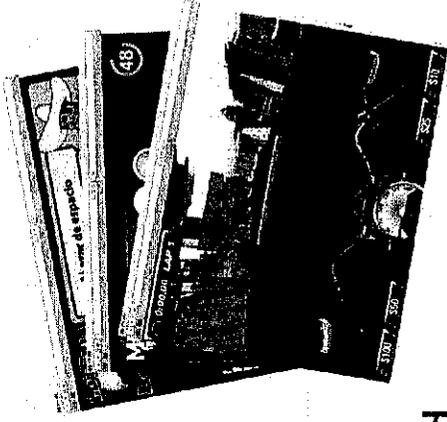


SCIENTIFIC GAMES®



MDI Interactive Focus

- Provide interactive solutions, content and product innovations related to:
 - ↳ Web Site Developments
 - ↳ 2nd Chance Promotions
 - ↳ Game Models — All Channels
 - ↳ Players Clubs and Loyalty Programs
 - ↳ Social Media and Mobile Strategies
- Help lotteries capitalize on the digital future and capture the next generation of players.



Scientific Games Properties



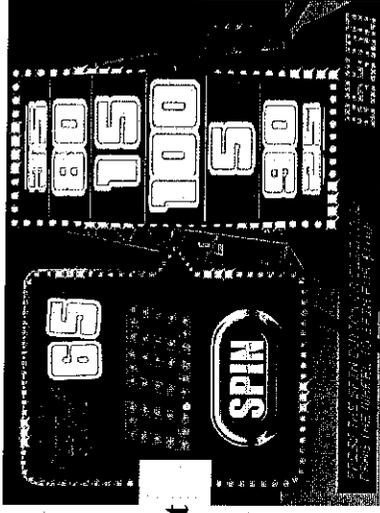
2nd Chance Web Sites / Entry Portals

More than 300 web sites developed
Over 150 million entries processed

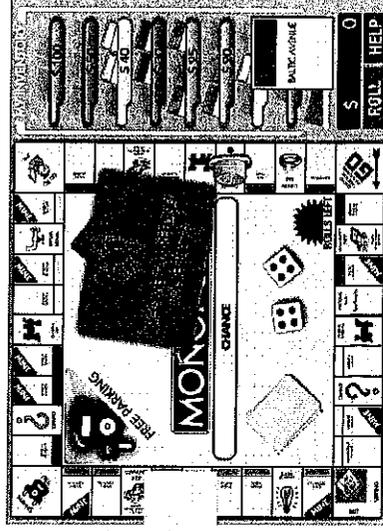


2nd Chance Promotional Games

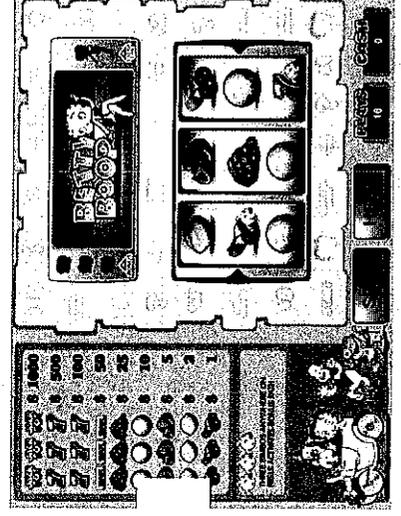
- Entertaining, animated games with pre-determined outcomes accessed by Players Club members via internet
- Outcome is pre-determined at time of printing
- Can be "just for fun," points or 2nd chance drawing entries
- Variety of play actions - customized for use with specific licensed properties or with generic themes



The Price is Right



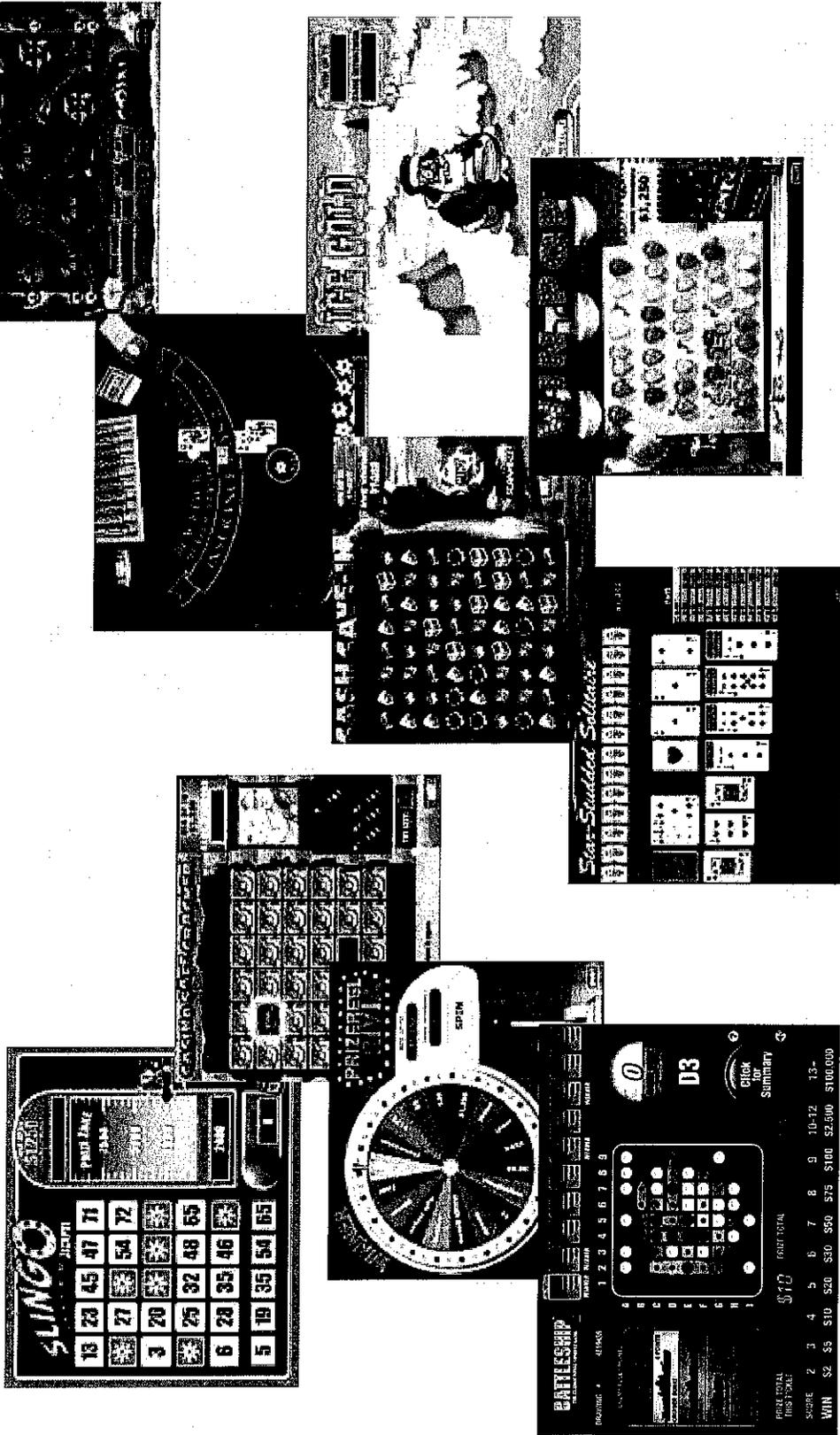
Monopoly



Betty Boop



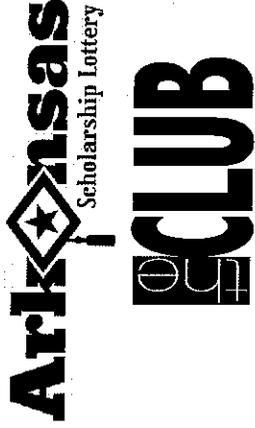
Interactive Games



Scientific Games Properties



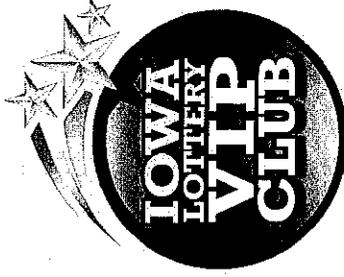
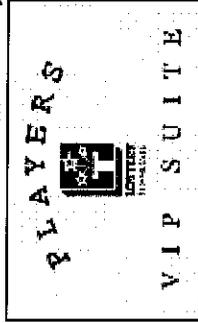
MDI Managed Players Clubs



Montana Lottery



Tennessee
Education Lottery



Scientific Games Properties



Properties™

Arkansas
Scholarship Lottery

DI

Scientific Games Properties

SG
SCIENTIFIC GAMES®

Why a Loyalty Rewards Club

“Simply put, relationship marketing is about moving your customer from a transactional relationship to an emotional relationship.”

crmtrends.com

“American business has developed an insane imbalance between obsessive customer acquisition and negligent customer retention.”

Lester Wunderman
Wunderman Worldwide

“As a customer's relationship with the company lengthens, profits rise. And not just by a little. Companies can boost profits by almost 100 percent by retaining just 5 percent more of their customers”

F.P. Reichheld
Bain & Co.

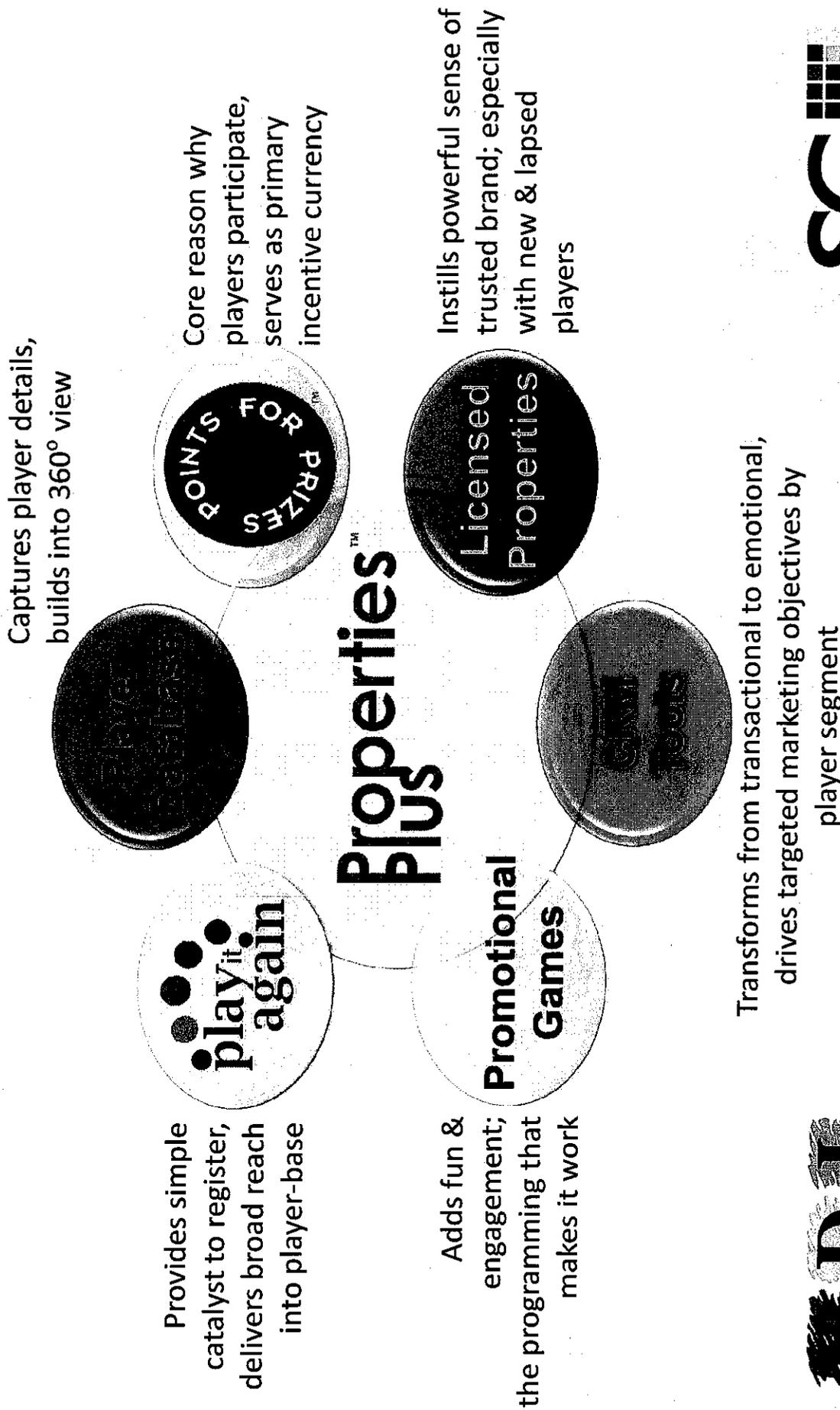


SCIENTIFIC GAMES Properties



SCIENTIFIC GAMES®

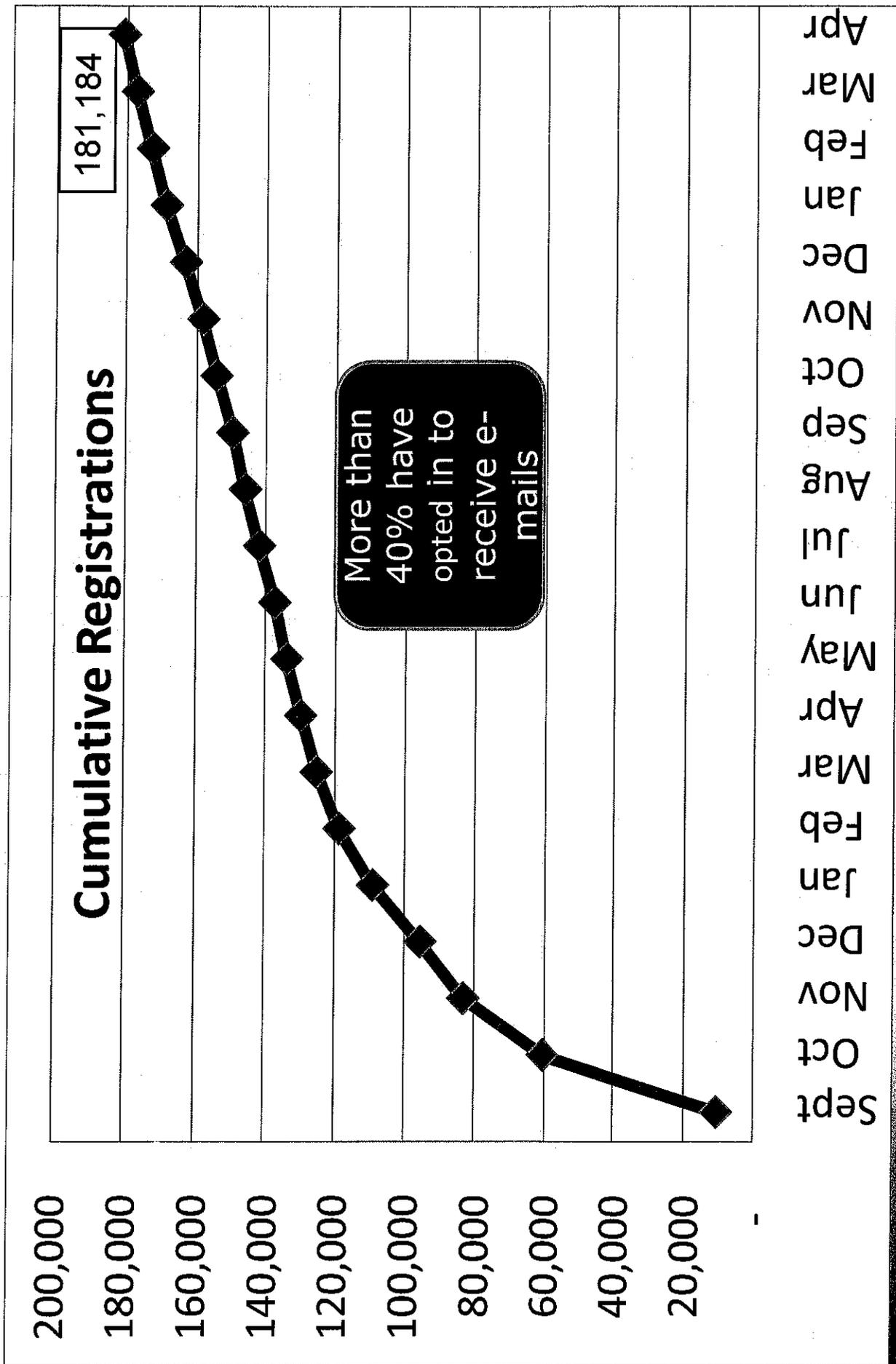
Program Toolkit



Scientific Games Properties

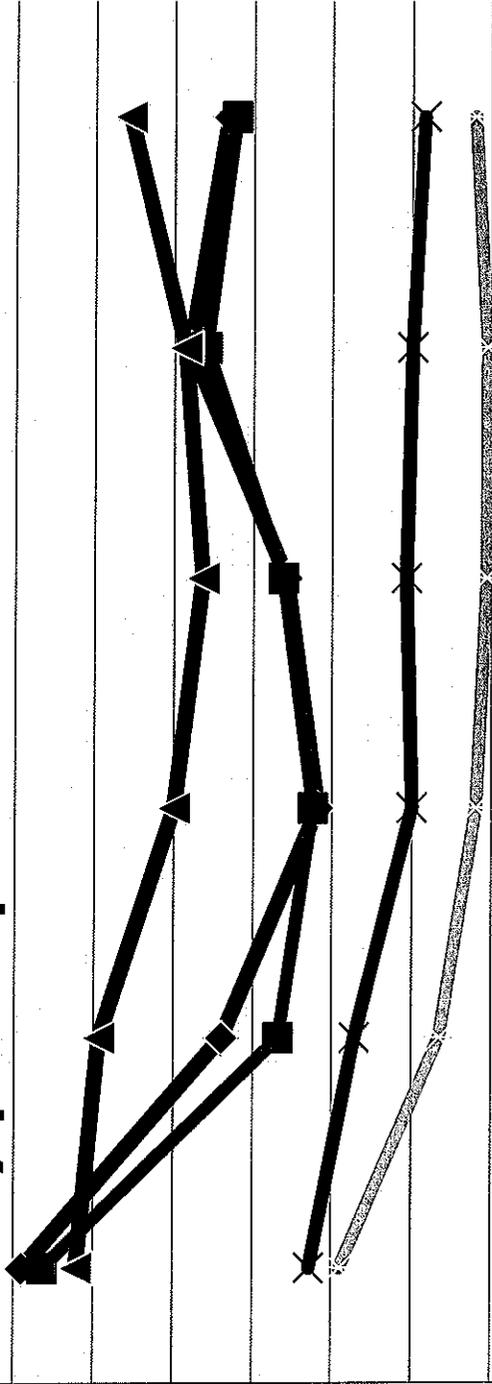


Arkansas Membership Continues to Climb



Arkansas Has Outperformed Other Recent Start-ups

Weekly per Capita Instant Sales



SC Jan 02 5.7%	TN Jan 04 5.7%	NC Mar 06 4.6%	OK Oct 05 4.2%	AR Sept 09 10.1%
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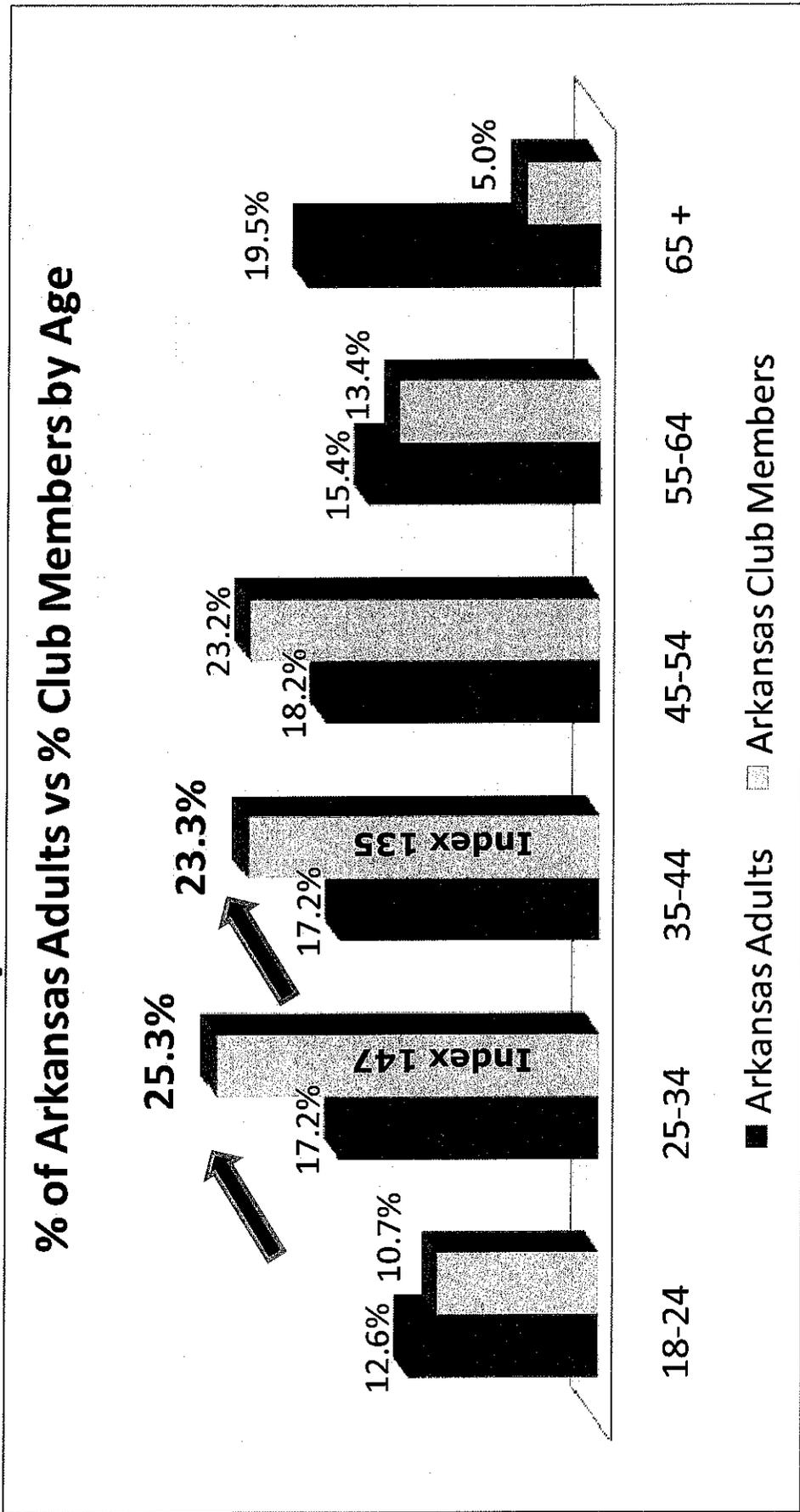
	1st quarter	2nd quarter	3rd quarter	4th quarter	5th quarter	6th quarter
South Carolina	\$3.45	\$2.20	\$1.59	\$1.79	\$2.40	\$2.16
Tennessee	\$3.32	\$1.84	\$1.62	\$1.81	\$2.30	\$2.11
Arkansas	\$3.11	\$2.97	\$2.50	\$2.32	\$2.43	\$2.78
North Carolina	\$1.64	\$1.36	\$1.00	\$1.03	\$1.00	\$0.92
Oklahoma	\$1.45	\$0.82	\$0.60	\$0.53	\$0.52	\$0.60



National Unemployment %
at Start-up Month

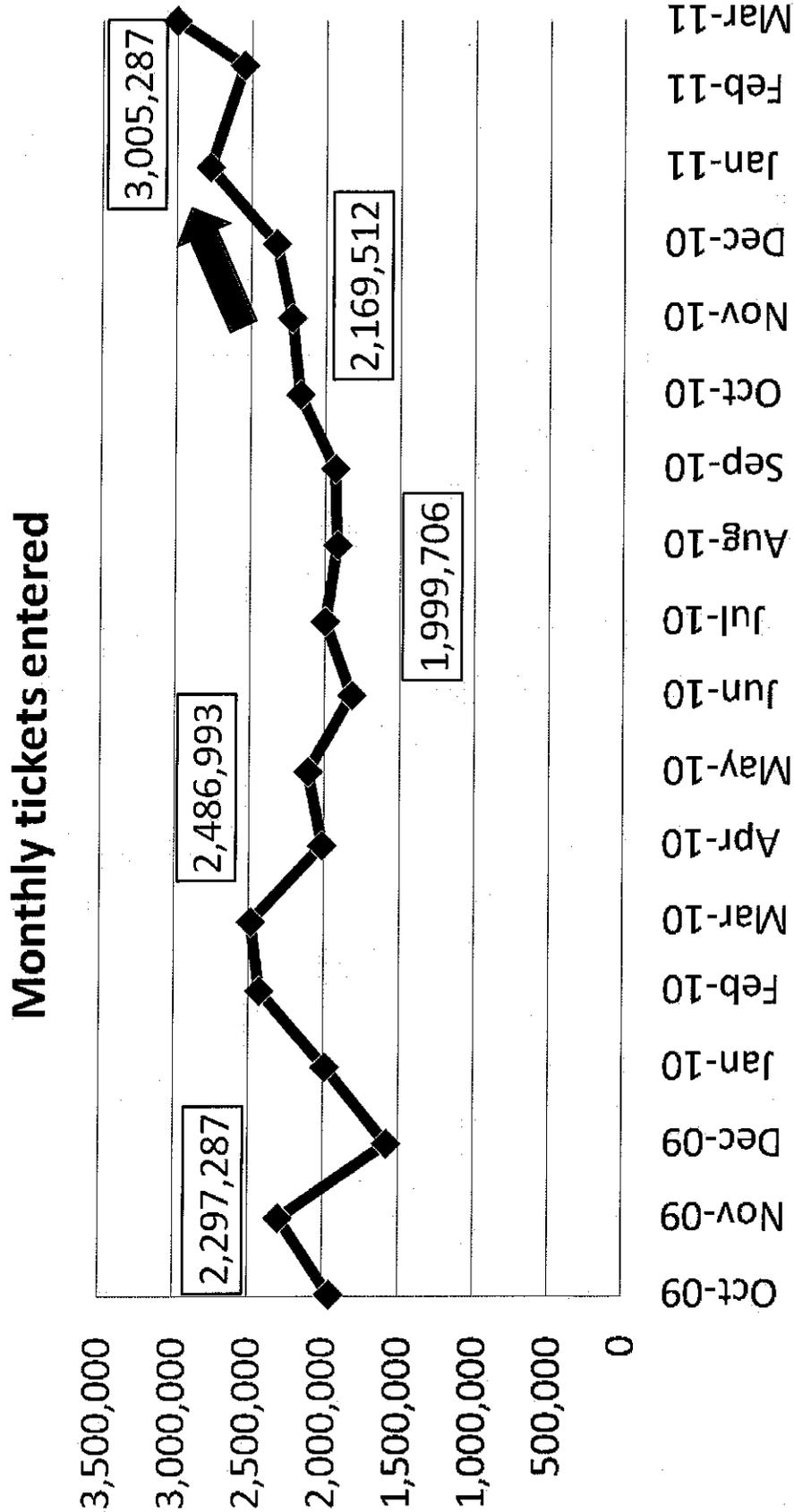


Arkansas Club Members Skew Younger Than Adult Population as a Whole



Averaging Over 2 Million Entries Per Month

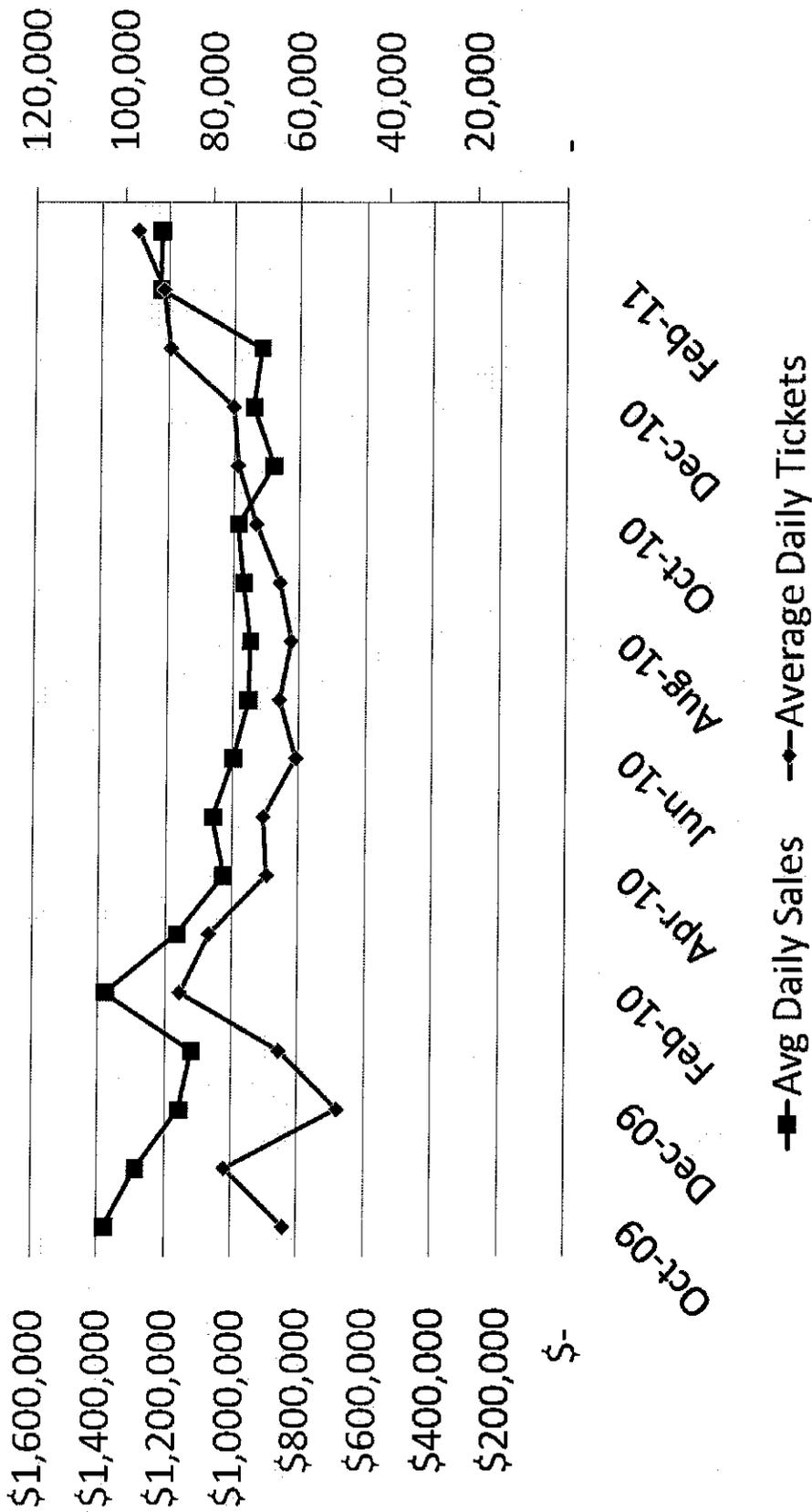
All Time High in March 2011



Total tickets entered to date
39,692,664

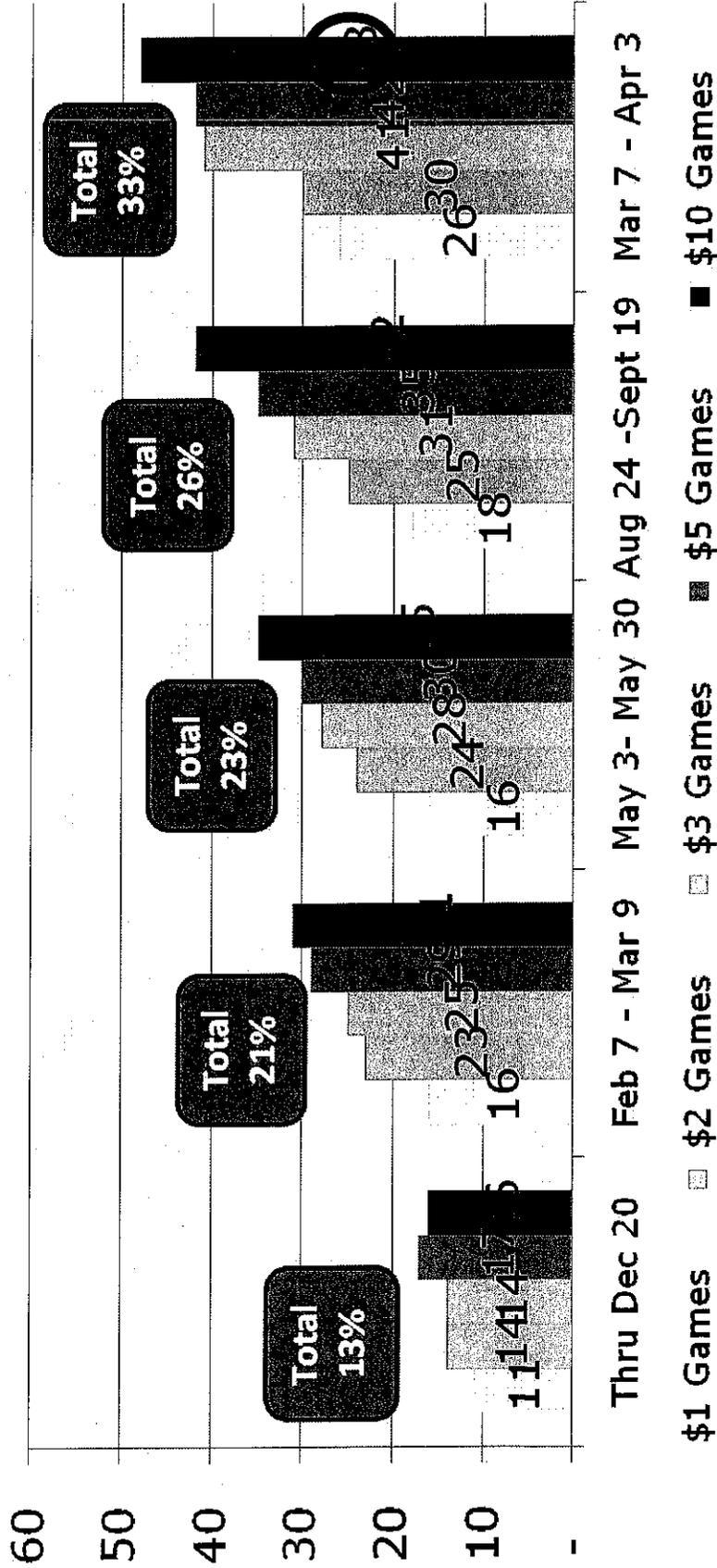


Strong Correlation Evident Between Ticket Entries and Sales



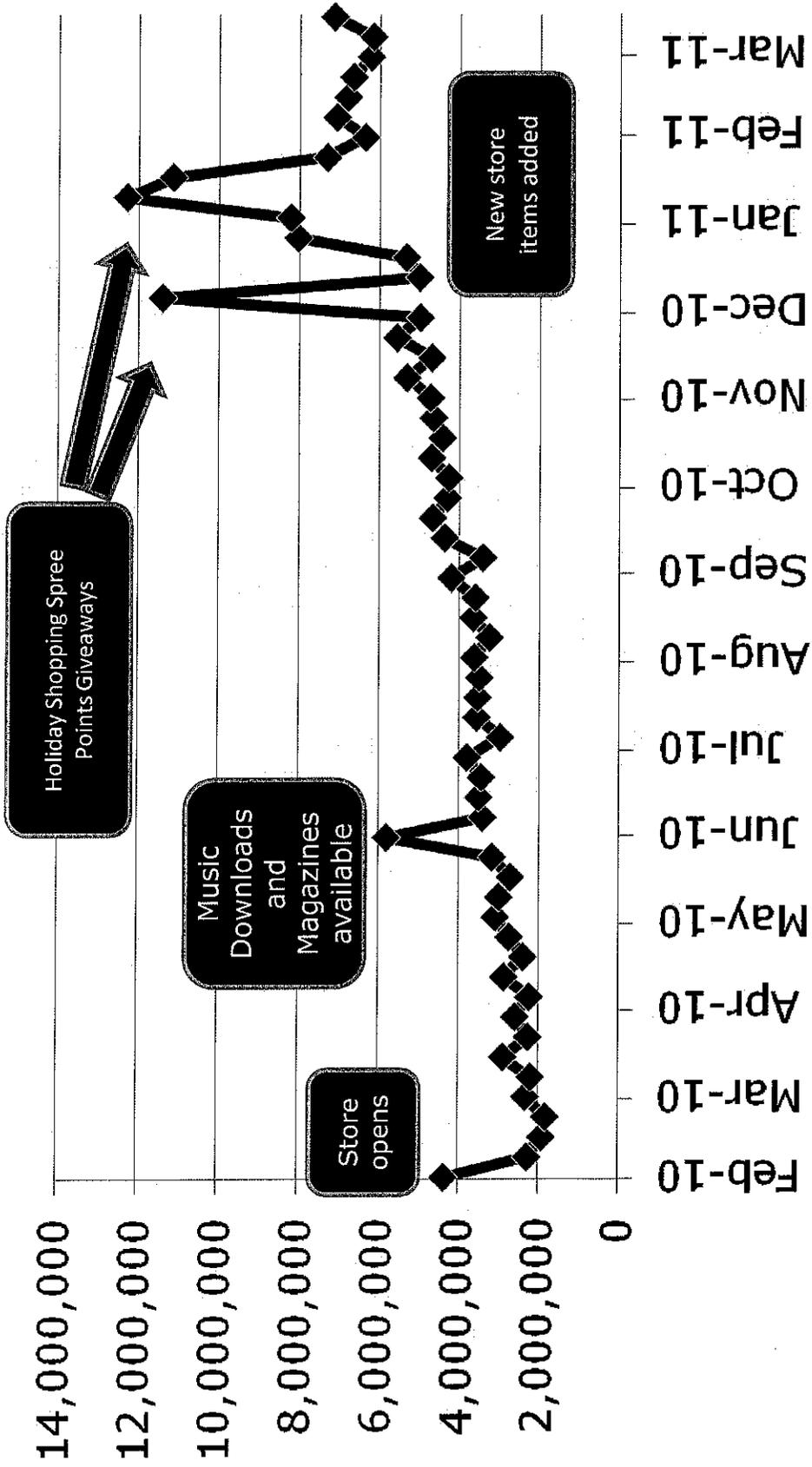
% of Tickets Entered Has Shown Consistent Growth, Especially Higher Price Points

% of Eligible Tickets Entered – By Price Point



© Scientific Games Properties

Redemptions Trending Strongly Upward, Spiked By New Items Added and Promotions



Arkansas Page Views and Time On Site

Compare Very Favorably to Other Sites

Lottery	Population	Monthly Page Views	Page Views per 1000 population	Avg. Time on Site
Arkansas	2,889,450	4,124,338	1,427	20:18
Tennessee	6,296,254	2,549,931	405	9:36
Montana	947,989	179,100	188	9:13
Minnesota	4,919,479	345,226	70	4:32

March 1st to 31st 2011



Attitudes Toward the Arkansas Lottery Are Very , Very Favorable Overall

	Unfavorable (1-2)	Neutral (3-5)	Favorable (6-7)
Arkansas Players	2%	42%	56%
Jurisdiction A Players	4%	66%	30%
Jurisdiction B Players	3%	60%	37%

How would you describe your overall opinion of the Lottery on a scale from 1 to 7?



Source: Arkansas Lottery Demographic Research , January, 2011

Those Who Are Aware of or Use Players Club Services Have Significantly More Favorable Attitudes on Key Measures

	Unaware of Club/PIA/PFP (Top 2 Box %)	Aware/Use Club/PIA/PFP (Top 2 Box %)
Provides Entertainment Value for Your Money	31%	41%
There are many Lottery winners in Arkansas	15%	30%
Lottery is fun to play even if when I don't win	28%	38%

Please tell us to what extent you agree or disagree with each of the following statements about Arkansas Lottery games. Scale from 1 to 7



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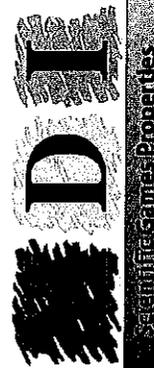
Source: Arkansas Lottery Demographic Research, January, 2011

Stay in the Game's Properties

Those Aware of/Using Players Club Services Spend Much More Than Those Not Aware

	Unaware of Club/PIA/PFP	Aware/Use Club/PIA/PFP	% Difference
Annual Frequency of Instant Ticket Purchase	25.4	35.8	+41%
Instant Ticket Spend per Occasion	\$10.44	\$11.46	+10%
Annual Instant Ticket Spend	\$301.00	\$361.90	+20%

Those aware are also more likely to play – 83% vs. 71%



Source: Arkansas Lottery Demographic Research, January, 2011



Properties Plus Enhances Player Experience

On a Significant Portion of Tickets Sold

	Prize Structure Allocation	# of Tickets	% of All Tickets Sold
--	----------------------------	--------------	-----------------------

Instant Winners 98.5% 2,750,114 25%

Tickets Entered 1.5%* 2,620,977 **24%**

Sales and entry data for 3/7/11 to 4/3/11



Scientific Games Properties



May Initiatives Paying Dividends...

- New \$20 Game "**\$1 Million Diamond Dazzler**" launched Tuesday, May 3rd
 - First week sales of \$3,045,000
 - 27,458 non-winning tickets entered through Sunday (worth \$549,160 in retail value)
 - Ranked third in total tickets entered
 - 3 Times Lucky **\$1** (below) was #1 with 43,633
 - Lady Bucks **\$1** game was #2 with 39,814
 - 3,129,260 points earned by players
- May's "Feature Game" for triple points, game #001, "**3 Times Lucky**"
 - 43,633 tickets entered for week ending Sunday, May 8th
 - 258% increase over previous week
 - Sales up 6% over previous week and 15% over CY '11 weekly average



Scientific Games Properties



Thank You



Scientific Games Properties



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

	2010 Audited	%	2011 Budgeted	%	2012 Budgeted	%	Explanation for Change in Budget Amounts
Operating Revenues:							
Instant Game Prizes	\$ 335,487,156	87.2%	\$ 374,125,000	80.4%	\$ 379,600,000	82.5%	Instant Game sales are stronger than originally projected.
On-Line Games	\$ 48,211,299	12.5%	\$ 90,106,000	19.4%	\$ 79,697,500	17.3%	On-Line 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 restrictions
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%	\$ 254,388,260	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 On-Line Game Prizes due primarily to lower On-Line Game Revenues.
Retailer Commissions	\$ 21,578,603	5.6%	\$ 26,112,994	5.6%	\$ 23,720,660	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%	\$ 6,730,000	1.5%	Governor approved COLA and Merit raises in Jan 2011. APERs rate increased from 11% to 12.46% Approx. 1% of sales
Marketing, Advertising & Promo	\$ 4,352,303	1.1%	\$ 5,000,000	1.1%	\$ 4,500,000	1.0%	2011 Budget had non-recurring start up expenses that have been eliminated in the 2012 budget.
General and administrative ex	\$ 1,841,340	0.5%	\$ 2,539,000	0.5%	\$ 1,638,025	0.4%	ADHE admin expenses are expected to be lower than amounts budgeted for in 2011.
Services Provided by Other Age	\$ 278,349	0.1%	\$ 922,200	0.2%	\$ 342,000	0.1%	Estimated cost for year end and 60 day audits from Legislative Audit. Increased cost due to 60 day audits.
Legal and Professional Service	\$ 115,862	0.0%	\$ 316,000	0.1%	\$ 375,000	0.1%	2011 budgeted expenditures for capital assets did not occur resulting in lower depreciation.
Capital asset depreciation	\$ 122,643	0.0%	\$ 245,000	0.1%	\$ 215,000	0.0%	
Total Operating Expenses	\$ 302,579,134	78.7%	\$ 360,359,715	77.4%	\$ 359,917,857	78.3%	
Operating Income	\$ 81,991,994	21.3%	\$ 105,038,985	22.6%	\$ 99,938,643	21.7%	
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%	\$ 100,158,643	21.8%	
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%	(\$ 102,931,131)	-22.2%	
Change in Net Assets	(\$ 826,008)		\$ 0		(\$ 2,972,488)		

Arkansas Lottery Commission
Net Proceeds Computation
For the Fiscal Year Ending June 30, 2012

Net Income Before Transfers			\$ 100,158,643
Add:			
Accrual Expenses			
	Depreciation	\$ 215,000	
	Other Post Employment Benefits	\$ 230,000	\$ 445,000
Unclaimed Prizes			
	Gross Unclaimed Prizes	\$ 6,092,488	
	Less: Unclaimed Expended	\$ (2,500,000)	
	Less: Unclaimed Carried Over	\$ (1,000,000)	\$ 2,592,488
Less:			
	Fixed Asset Purchases	\$ (50,000)	
	Fidelity Fund Fees	\$ (15,000)	\$ (65,000)
Net Proceeds before Transfers			<u>\$ 103,131,131</u>
Transfers To:			
	Arkansas Department to Health	\$ 200,000	
	Arkansas Department of Higher Education (Net Proceeds)	\$ 102,931,131	
Total Transfers			<u>\$ 103,131,131</u>

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	non-game revenues	Total
Sales	\$ 374,600,000.00	\$ 5,000,000.00	\$ 5,475,000.00	\$ 3,285,000.00	\$ 9,125,000.00	\$ 3,412,500.00	\$ 36,500,000.00	\$ 21,900,000.00	\$ 555,000.00	\$ 459,852,500.00
Prize expense	\$ (252,855,000.00)	\$ (3,375,000.00)	\$ (2,737,500.00)	\$ (1,642,500.00)	\$ (5,018,750.00)	\$ (1,706,250.00)	\$ (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		\$ 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										
Other Cost of Sales:										
Retailer sales commissions	\$ 23,156,841.52		5.04%							\$ (2,500,000.00) unclaimed used for operations
Retailer incentives & cashing commissions	\$ 2,563,818.05		0.86%							\$ (1,000,000.00) unclaimed carryover
Instant Game Ticket Fee	\$ 6,330,866.48		1.69%							\$ (200,000.00) AR Dept of Health
Other Instant Game Contract Costs	\$ 5,733,345.04		1.53%							\$ 2,392,487.50 Addition to Net Proceeds from unclaimed prizes
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										

BUDGET 2011

	Instant Game	Fast Play	CASH 3	CASH 4	Raffle	POWERBALL	MEGAMILLIONS	non-game revenues	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)	\$ (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									
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%						
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									

Did not include Points for Prizes in original budget

Arkansas Lottery Commission
Compensation & Benefits
Budget 2012

Employee	Gross Inc.	Sec. C	Discrete	APERS-C	COLA-%	Merit	Budgeted Gross	Career Grades	Position Title	Race	Annual Tax	Annual APERS	Total Comp and Benefits
5400-G-GE-10000	1,577.60	-91.22	-21.33	-196.57	0.00%	0.00%	41,017.60	ACT-C115	Security Spec	BF	2,926.30	\$	5,110.79
5400-G-GI-10000	2,349.80	-145.72	-34.08	-297.64	\$	\$	62,108.80	C128	OA System Analyst	BF	4,674.60	\$	7,738.76
5400-A-AI-12000	1,740.00	-101.88	-23.83	-216.80	\$	\$	45,240.00	C122	Claims Mgr	BF	3,268.48	\$	5,636.90
5400-A-AI-12000	1,068.00	-63.02	-14.74	-133.07	\$	\$	27,768.00	C112	Claims Asst	BF	2,021.76	\$	3,459.89
5400-G-GS-10000	1,554.40	-93.40	-21.84	-193.68	\$	\$	40,414.40	C120	Marketing Rep	BF	2,996.24	\$	5,035.63
5400-A-AI-10000	1,726.40	-103.84	-24.29	-215.11	\$	\$	44,886.40	C122	Accountant	BF	3,331.38	\$	5,592.85
5400-A-00-00000	6,943.36	-430.26	-100.63	-965.14	\$	\$	225,659.20	N922	VP Administration	BF	13,803.14	\$	28,117.14
5400-A-AI-14000	1,068.00	-62.77	-14.68	-133.07	\$	\$	27,768.00	C112	Claims Asst	BF	2,013.70	\$	3,459.89
5400-A-AH-10000	1,422.40	-80.92	-18.92	-177.23	\$	\$	36,982.40	C113	Admin Support Supv	BF	2,595.84	\$	4,608.01
5400-G-GS-10000	1,577.60	-91.22	-21.33	-196.57	\$	\$	41,017.60	C120	Marketing Rep	BF	2,926.30	\$	5,110.79
5400-A-AP-10000	1,236.01	-73.66	-17.23	-154.01	\$	\$	32,136.26	C115	Licensing Spec	BF	2,363.14	\$	4,004.18
5400-A-AC-10000	1,792.00	-111.10	-25.98	-223.28	\$	\$	46,592.00	C122	Accountant	BF	3,564.08	\$	5,905.36
5400-A-AI-10000	1,726.41	-101.03	-23.63	-215.11	\$	\$	44,886.66	C122	Accountant	BF	3,241.16	\$	5,592.88
5400-G-GE-10000	868.85	-50.90	-11.90	-108.26	\$	\$	22,590.10	C110	Postal Courier	BF	1,632.80	\$	2,814.73
5400-A-AC-10000	1,911.20	-114.63	-26.81	-238.14	\$	\$	49,691.20	C122	Accountant	BF	3,677.44	\$	6,191.52
5400-A-AI-10000	1,604.00	-95.63	-22.37	-199.86	\$	\$	41,704.00	C112	Auditor	BF	3,068.00	\$	5,196.32
5400-G-GS-10000	1,566.40	-92.52	-21.64	-195.17	\$	\$	40,726.40	C120	Marketing Rep	BF	2,968.16	\$	5,074.51
5400-A-AI-10000	2,013.80	-124.00	-29.00	-250.89	\$	\$	52,353.60	C125	Spec	BM	3,978.00	\$	6,523.26
5400-A-MB-10000	2,549.60	-154.97	-36.24	-317.68	\$	\$	66,289.60	N901	SMB Project Coordinator	BM	4,971.46	\$	8,259.68
5400-A-AI-10000	2,468.38	-149.84	-35.04	-307.56	\$	\$	64,177.88	C125	IT Project Mgr	BM	4,806.88	\$	7,986.56
5400-G-GS-10000	2,549.60	-144.35	-33.76	-317.68	\$	\$	66,289.60	N901	Regional Sales Mgr	BM	4,630.86	\$	8,259.68
5400-G-GS-10000	1,586.40	-77.10	-18.03	-165.17	\$	\$	40,726.40	C120	Marketing Rep	BM	2,473.38	\$	5,074.51
5400-G-GE-10000	2,942.40	-179.46	-41.97	-366.62	\$	\$	76,502.40	N904	Security Deputy	BM	5,757.48	\$	9,532.20
5400-G-GA-10000	1,806.41	-109.03	-25.50	-225.08	\$	\$	46,968.66	C114	Sr Graphic Spec	CF	3,897.78	\$	5,832.05
5400-G-PD-10000	2,942.40	-179.46	-41.97	-366.62	\$	\$	76,502.40	N904	Product Dev Director	CF	5,757.48	\$	9,532.20
5400-G-GS-10000	1,577.60	-84.80	-19.83	-166.57	\$	\$	41,017.60	C120	Marketing Rep	CF	2,720.38	\$	5,110.79
5400-A-AI-13000	1,728.40	-104.07	-24.34	-215.11	\$	\$	44,886.40	C122	Claims Mgr	CF	3,338.66	\$	5,592.85
5400-G-GS-10000	1,577.60	-84.84	-22.18	-166.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,042.52	\$	5,110.79
5400-A-AI-13000	1,060.00	-62.75	-14.68	-132.08	\$	\$	27,560.00	C112	Claims Asst	CF	2,013.18	\$	3,483.98
5400-G-GA-10000	1,343.21	-80.08	-18.73	-167.36	\$	\$	34,923.46	C117	Promotions & Special Events	CF	2,569.06	\$	4,351.46
5400-G-GE-10000	542.60	-33.64	-7.87	-54.20	\$	\$	14,107.60	C121	PT Draw Mgr	CF	1,079.26	\$	1,757.81
5400-A-AH-10000	1,589.61	-95.36	-22.30	-272.83	\$	\$	41,329.86	C120	Payroll Specialist	CF	3,058.16	\$	5,149.70
5400-G-GA-10000	2,532.00	-156.98	-36.71	-315.49	\$	\$	66,832.00	N906	Director	CF	5,035.94	\$	8,202.67
5400-E-00-00000	4,119.20	-252.54	-59.06	-600.47	\$	\$	107,099.20	N909	Executive Asst	CF	8,101.60	\$	13,344.56
5400-G-GS-10000	1,577.60	-93.97	-21.98	-196.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,014.70	\$	5,110.79
5400-G-GE-10000	1,104.81	-65.30	-15.27	-137.66	\$	\$	28,725.06	C113	Security Support Spec	CF	2,094.82	\$	3,579.14
5400-G-GS-10000	2,549.60	-155.11	-36.27	-317.68	\$	\$	66,289.60	N901	Regional Sales Mgr	CF	4,975.88	\$	8,259.68
5400-A-AI-10000	4,119.20	-248.32	-58.31	-513.25	\$	\$	107,099.20	N912	Info Technical Director	CF	7,998.38	\$	13,344.56
5400-A-AI-10000	1,068.01	-65.22	-15.49	-133.07	\$	\$	27,768.26	C112	Claims Asst	CF	2,124.46	\$	3,459.93
5400-A-AI-11000	1,726.40	-92.54	-21.64	-215.11	\$	\$	44,886.40	C122	Claims Mgr	CF	2,968.68	\$	5,592.85
5400-G-GS-10000	1,577.60	-84.84	-22.18	-166.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,042.52	\$	5,110.79
5400-A-AH-10000	1,313.60	-76.81	-17.96	-163.67	\$	\$	34,153.60	C112	Admin Support Spec	CF	2,464.02	\$	4,255.54
5400-G-GS-10000	1,577.60	-84.87	-22.12	-166.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,038.94	\$	5,110.79
5400-A-AH-10000	2,532.00	-154.01	-36.02	-315.49	\$	\$	66,832.00	C130	HR Director	CF	4,940.78	\$	8,202.67
5400-A-AI-14000	1,726.40	-106.79	-24.97	-215.11	\$	\$	44,886.40	C120	Claims Mgr	CF	3,425.76	\$	5,592.85
5400-A-AI-14000	1,577.60	-84.84	-22.18	-166.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,042.52	\$	5,110.79
5400-A-AH-10000	1,176.80	-69.99	-16.37	-146.63	\$	\$	30,598.80	ACT-C112	Admin Support Spec	CF	2,245.36	\$	3,812.36
5400-G-GI-10000	1,121.60	-66.57	-15.57	-139.75	\$	\$	29,161.60	C113	IT computer Operator	CF	2,135.64	\$	3,633.54
5400-G-00-00000	8,679.20	-522.59	-122.22	-1,081.43	\$	\$	225,659.20	C922	VP Gaming Operations	CF	16,765.06	\$	28,117.14
5400-G-GS-10000	1,577.60	-97.81	-22.88	-196.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,137.94	\$	5,110.79
5400-G-00-00000	1,566.40	-93.92	-21.97	-195.17	\$	\$	40,726.40	C120	Marketing Rep	CF	3,013.14	\$	5,074.51
5400-E-00-00000	12,710.40	-776.12	-181.51	-1,593.72	\$	\$	330,470.40	ACT-Q146I	Executive Director	CF	24,898.38	\$	45,960.25
5400-G-GS-10000	1,577.60	-97.81	-22.88	-196.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,137.94	\$	5,110.79
5400-G-GS-10000	567.88	-35.21	-8.23	-57.82	\$	\$	14,764.88	C121	PT Draw Mgr	CF	1,129.44	\$	1,839.70
5400-G-GI-10000	1,154.20	-67.35	-15.75	-141.32	\$	\$	29,489.20	C115	Licensing Mgr	CF	2,160.60	\$	3,674.35
5400-G-GS-10000	1,566.40	-93.92	-21.97	-195.17	\$	\$	40,726.40	C120	Marketing Rep	CF	3,013.14	\$	5,074.51
5400-A-AI-10000	2,628.00	-159.38	-37.27	-327.45	\$	\$	68,328.00	C130	Network Engineer	CF	5,112.90	\$	8,513.67
5400-G-ST-10000	3,138.40	-183.18	-42.84	-391.04	\$	\$	81,598.40	N904	Sales Training & Retail Coord	CF	5,976.52	\$	10,167.16
5400-G-GE-10000	4,408.00	-268.78	-62.86	-554.22	\$	\$	115,648.00	N910	Security Director	CF	8,622.64	\$	14,409.74
5400-G-GA-10000	1,372.80	-82.14	-19.21	-171.05	\$	\$	35,692.80	C112	Production Coordinator	CF	2,635.10	\$	4,447.32
5400-G-GI-10000	5,884.80	-351.44	-82.19	-733.25	\$	\$	153,004.80	N919	IT Gaming Director	CF	11,274.38	\$	19,064.40
5400-G-GA-10000	4,648.80	-271.50	-63.50	-678.92	\$	\$	120,868.80	C146U	Internal Auditor	CF	8,710.00	\$	15,060.25
5400-G-GA-10000	1,451.20	-87.01	-20.35	-180.82	\$	\$	37,731.20	C112	Animator	CF	2,791.36	\$	4,701.31
5400-A-AH-10000	2,157.61	-130.80	-30.59	-268.84	\$	\$	56,097.86	C121	HR Generalists	CF	4,196.14	\$	6,999.79
5400-A-AH-10000	1,566.40	-93.92	-21.97	-195.17	\$	\$	40,726.40	C120	Marketing Rep	CF	3,013.14	\$	5,074.51
5400-A-AP-10000	2,114.40	-127.53	-29.83	-263.45	\$	\$	54,974.40	C126	Business Mgr/Paralegal	CF	4,091.36	\$	6,849.81
5400-A-AC-10000	3,102.40	-186.30	-43.57	-386.56	\$	\$	80,662.40	N910	Chief Fiscal Officer	CF	5,976.62	\$	10,050.54
5400-A-AI-12000	1,388.00	-82.50	-19.29	-172.94	\$	\$	36,088.00	C112	Claims Asst	CF	2,646.54	\$	4,496.95
5400-G-GS-10000	1,577.60	-87.40	-22.78	-196.57	\$	\$	41,017.60	C120	Marketing Rep	CF	3,124.68	\$	5,110.79
5400-A-AI-13000	3,629.60	-210.79	-49.30	-452.25	\$	\$	94,369.60	N910	Sales Director	CF	6,762.34	\$	11,758.45

Arkansas Lottery Commission
 Compensation & Benefits
 Budget 2012

Employee	Gross	Sec. C	Sec. C	decrease	C	APERS	C	Annual	Gross	COLA %	Merit	Budgeted	Career	Position Title	Race	Annual Tax	Annual APERS	Total Comp and Benefits
												Gross	Grades					
5400-G-GE-10000	1,577.60	-95.63	-22.36	-22.36	-308.71	\$	41,017.60	\$	\$	0.00%	\$	41,017.60	C120	Security Specialists	CM	3,067.74	\$	5,110.79
5400-G-GI-10000	2,570.40	-153.85	-35.98	-320.27	\$	66,630.40	\$	\$	\$		\$	66,630.40	C130	Sr Data Base Admin	CM	4,935.58	\$	8,327.07
5400-G-GS-10000	1,577.60	-94.84	-22.18	-195.57	\$	41,017.60	\$	\$	\$		\$	41,017.60	C120	Marketing Rep	CM	3,042.52	\$	5,110.79
5400-G-GA-10000	1,568.80	-97.04	-31.75	-272.83	\$	40,788.80	\$	\$	\$		\$	40,788.80	C117	Copy Editor	CM	3,113.24	\$	5,082.28
5400-A-AC-10000	2,189.61	-135.78	-38.29	-343.60	\$	56,929.86	\$	\$	\$		\$	56,929.86	C122	Accountant	CM	4,355.26	\$	7,069.46
5400-A-AT-10000	2,757.60	-163.74	-37.53	-322.46	\$	71,697.60	\$	\$	\$		\$	71,697.60	N903	Treasurer	CM	5,252.78	\$	8,993.52
5400-G-GE-10000	2,588.00	-160.46	-242.24	-513.25	\$	67,288.00	\$	\$	\$		\$	67,288.00	C128	IT Security Analyst	CM	5,147.74	\$	8,384.08
5400-G-GL-10000	4,119.20	-242.24	-56.65	-213.51	\$	107,099.20	\$	\$	\$		\$	107,099.20	N910	Chief Legal Counsel	CM	7,771.14	\$	13,344.56
5400-A-AT-10000	1,713.60	-103.27	-24.15	-186.57	\$	44,553.60	\$	\$	\$		\$	44,553.60	C122	Mgr	CM	3,312.92	\$	5,551.38
5400-G-GS-10000	1,577.60	-94.84	-22.18	-186.57	\$	41,017.60	\$	\$	\$		\$	41,017.60	C120	Marketing Rep	CM	3,042.52	\$	5,110.79
5400-G-GS-10000	1,577.60	-94.25	-22.04	-183.68	\$	40,414.40	\$	\$	\$		\$	40,414.40	C120	Marketing Rep	CM	3,023.54	\$	5,110.79
5400-G-GS-10000	1,564.40	-96.37	-22.54	-152.91	\$	31,907.20	\$	\$	\$		\$	31,907.20	ACT-C115	Licensing Spec	OM	3,091.66	\$	5,035.63
5400-A-AP-10000	1,227.20	-73.12	-17.10	-320.07	\$	66,788.80	\$	\$	\$		\$	66,788.80	C128	QA System Analyst	OM	2,345.72	\$	3,975.64
5400-G-GI-10000	2,568.80	-143.87	-33.65	\$	4,972,240.78	\$	\$	\$	\$		\$	4,972,240.78				364,457.86	\$	5,919,905.25
TOTALS																		

Employer Health Premium	\$	380,000.00
Other Post Employment Benefits	\$	230,000.00
Unfilled/new positions	\$	211,000.00
Career Service bonuses	\$	6,321.00
subtotal	\$	6,737,226.25
TOTAL COMP AND BENEFITS	\$	6,730,000.00
		Use for Budget

BF=black female	16
BM=black male	7
CF=caucasian female	22
CM=caucasian male	36
OM=other minority	3
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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	30,949.08	30,949.08	221,255.11	379,294.47	
Jonesboro Lease & Office expen	2,478.65	2,563.61	17,302.64	29,661.67	385,000.00 Little Rock office including rent increases
Springdale Lease & Office expen	2,894.04	2,513.12	18,192.31	31,186.82	32,000.00 Lease plus utilities
Camden Lease & Office expense	2,276.04	1,419.79	10,502.32	18,003.98	32,000.00 Lease plus utilities
Office Parking	288.10	1,631.94	8,276.55	14,188.37	22,000.00 Lease plus utilities
Retailer background checks	412.50	453.75	3,465.00	5,940.00	15,000.00
Equipment-Low Value	0.00	0.00	11,844.79	20,305.35	7,500.00
Equipment-Low Value	1,943.74	0.00	1,943.74	3,332.13	25,000.00 estimate for admin.
Equipment Lease	711.65	1,899.38	7,990.60	13,698.17	25,000.00 estimate for gaming
Equipment Lease	809.80	0.00	4,288.61	7,351.90	15,000.00 copiers and postage machine
Maintenance & Repairs	841.03	841.03	3,498.12	5,996.78	9,200.00 marketing equipment
Lottery Vehicle expenses	1,789.05	650.42	6,726.58	11,531.28	7,500.00
Postage & Freight	454.60	1,929.24	7,986.10	13,690.46	15,000.00 gas, oil, maintenance
Postage & Freight	95.96	0.00	4,869.26	8,347.30	16,000.00
Office Supplies & Expense	5,163.04	16,754.03	72,090.74	123,584.13	10,000.00
Office Supplies & Expense	29.87	0.00	499.53	856.34	150,000.00 mostly office supplies from local vendors
Office Supplies & Expense	1,291.16	0.00	2,952.95	5,062.20	1,500.00
Data Processing supplies	0.00	3,483.00	3,483.00	5,970.86	10,000.00
Software Costs	2,133.85	7,868.32	10,158.17	17,414.01	10,000.00
Telephone	21,372.84	20,441.01	132,296.30	226,793.66	55,000.00
Mobil Telephones	2,921.82	6,647.45	35,049.57	60,084.98	300,000.00 paid to DIS
Travel and Mileage expense	0.00	0.00	43.70	74.91	60,000.00 Cell phones and air cards
Travel and Mileage expense	0.00	0.00	1,338.84	2,295.15	75.00
Travel and Mileage expense	0.00	11.84	1,664.26	2,853.02	1,250.00
Travel and Mileage expense	0.00	165.48	1,095.44	1,877.90	1,500.00
Travel and Mileage expense	244.59	0.00	2,136.88	3,663.22	1,000.00
Travel and Mileage expense	0.00	(89.44)	1,182.48	2,027.11	1,900.00
Travel and Mileage expense	0.00	202.02	5,723.05	9,810.94	1,000.00
Travel and Mileage expense	0.00	(328.96)	5,924.38	10,156.08	5,000.00
Travel and Mileage expense	163.21	17.02	2,037.27	3,492.46	5,100.00
Travel and Mileage expense	327.74	67.47	3,831.05	6,567.51	1,800.00
Travel and Mileage expense	0.00	0.00	779.17	1,335.72	3,400.00
Travel and Mileage expense	0.00	(127.36)	685.43	1,175.02	750.00
Travel and Mileage expense					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	15,821.73	18,933.14	128,229.52	219,822.03	
Travel and Mileage expense	191.14	216.28	1,833.44	3,143.04	
Commission Travel and Mileage	212.26	532.17	3,684.54	6,316.35	
Dues and Memberships	150.00	0.00	2,062.00	3,600.00	
Dues and Memberships	270.00	505.30	775.30	1,500.00	
Dues and Memberships	0.00	0.00	2,021.00	3,500.00	
Dues and Memberships	1,204.00	150.00	7,854.00	13,464.00	
Dues and Memberships	0.00	0.00	16,205.00	27,780.00	
Dues and Memberships	0.00	2,000.00	2,000.00	3,428.57	
Dues and Memberships	415.00	0.00	815.00	1,397.14	
Education and Training	180.00	774.00	5,372.00	9,209.14	
Education and Training	0.00	0.00	1,504.95	2,579.91	
Education and Training	0.00	0.00	100.00	171.43	
Education and Training	0.00	0.00	254.00	435.43	
Education and Training	0.00	300.00	2,300.00	3,942.86	
Education and Training	146.20	0.00	1,646.20	2,822.06	
Education and Training	0.00	0.00	125.00	214.29	
Property Insurance	0.00	0.00	5,119.00	8,775.43	Office equipment and automobiles
Liability Insurance	4,076.33	0.00	4,076.33	6,987.99	Fidelity Bond premium \$9,000
Liability Insurance	0.00	0.00	8,841.00	15,156.00	D&O annual premium \$49,000
Finance division expenditures	43.00	0.00	556.00	953.14	
IT division expenditures	0.00	0.00	97.93	167.88	
Treasury division expenditures	60.00	0.00	70.00	120.00	
Minority Business recruiting	0.00	510.00	2,870.00	4,920.00	
Commission Meeting expenses	113.44	0.00	1,465.61	2,512.47	
Gaming Sales division expenditures	0.00	0.00	27.75	47.57	

1,390,319.16 1,638,025.00

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 – May 9, 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 May 9, 2011

Audit fieldwork planned

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

Arkansas Lottery Commission – Internal Audit

Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – May 9, 2011

Audit Report Finding 2010-2:

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

Recommendation for Finding 2010-2:

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

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**

Status Report – May 9, 2011

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

Status Report – May 9, 2011

Management Letter Finding #1:

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

Recommendation for Management Letter Finding #1:

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

Audit Objective #4

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

Status as of May 9, 2011

Audit fieldwork complete – No findings or recommendations

- The Arkansas Scholarship Lottery Winner Claim Form has been updated to state the following:

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

Arkansas Lottery Commission – Internal Audit

Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – May 9, 2011

Audit Objective #5

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

Status as of May 9, 2011

Audit fieldwork in progress

- 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.
- Internal Audit recommends that policies and procedures be developed concerning the maintenance of the ineligible player database. Lottery management has indicated that this matter will be addressed following the May 11, 2011 Arkansas Lottery Commission meeting.
- Internal Audit will review the ineligible player database policies and procedures upon completion.

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 – May 9, 2011

Legislative Audit Management Letter Finding #2:

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

Legislative Audit Recommendation for Management Letter Finding #2:

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

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

Audit Objective #6

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

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

Audit Objective #7

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

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

Arkansas Lottery Commission – Internal Audit

Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – May 9, 2011

Legislative Audit Management Letter Finding #3:

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

Legislative Audit Recommendation for Management Letter Finding #3:

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

Audit Objective #8

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

Status as of May 9, 2011

Audit fieldwork complete – No findings or recommendations

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

Arkansas Lottery Commission – Internal Audit

**Review of Findings and Recommendations from the Division of Legislative Audit's
June 30, 2010 Audit Report and Management Letter**

Status Report – May 9, 2011

Audit Objective #9

Determine if Lottery management has established written policies and procedures for the use of the 80 hours of compensatory time approved by the Arkansas Lottery Commission.

Status as of May 9, 2011

Audit fieldwork complete – No findings or recommendations

Lottery management has established a *Compensatory Time Policy*. In addition, an email written by the Lottery's Human Resources Director provided guidance to 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.

Status as of May 9, 2011

Audit fieldwork complete – No findings or recommendations

Internal Audit performed a test of compensatory time usage records and determined that time is accounted for in accordance with policies and procedures, approved, and adequately supported.

Arkansas Lottery Commission – Internal Audit

Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – May 9, 2011

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.

Status as of May 9, 2011

Audit fieldwork in progress

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 original balance of the compensatory time to be reimbursed by the Vice President of Administration was 178.5 hours. The Vice President of Administration submitted a plan on February 11, 2011 to reimburse her outstanding compensatory time balance in the following manner:
 1. Starting with the pay period ending February 19, 2011, reduce compensation by 4 hours per week (8 hours per pay period) until the pay period ending July 9, 2011, a total of 11 pay periods. This will result in a reduction of the compensatory time balance of 88 hours.
 2. Forfeit her cost of living and merit pay increase in the amount of \$8,922.24. At an hourly rate of \$108.49 per hour, this will result in a reduction of the compensatory time balance of approximately 82 hours.

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 – May 9, 2011

3. The remainder of the compensatory time will be paid by the Vice President of Administration to bring the balance to zero by the end of July 2011.
- The Vice President of Administration has a balance of 129.97 hours as of May 9, 2011. The original balance of the compensatory time to be reimbursed of 178.5 hours has been reduced by a reduction in compensation of eight hours per check for six pay periods (48 hours) and a payroll deduction overpayment of \$57.69 (.53 hours) not returned to the Vice President of Administration.

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 – May 9, 2011

Legislative Audit Management Letter Finding #4:

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

Legislative Audit Recommendation for Management Letter Finding #4:

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

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

**Review of Findings and Recommendations from the Division of Legislative Audit's
June 30, 2010 Audit Report and Management Letter**

Status Report – May 9, 2011

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

Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – May 9, 2011

Legislative Audit Management Letter Finding #5:

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

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

Arkansas Lottery Commission – Internal Audit

Review of Findings and Recommendations from the Division of Legislative Audit's June 30, 2010 Audit Report and Management Letter

Status Report – May 9, 2011

Legislative Audit Recommendation for Management Letter Finding #5:

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

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 and March 2011 for compliance with the Lottery's policies and procedures, adequate supporting documentation, and proper authorization. No reportable exceptions were noted. 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.

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 – May 9, 2011

Legislative Audit Management Letter Finding #6:

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

Legislative Audit Recommendation for Management Letter Finding #6:

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

Audit Objective #16

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

Status as of May 9, 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.

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 – May 9, 2011

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 May 9, 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 maintains that the two employees in question were legally entitled to the funds received.
- Internal Audit will continue to monitor this finding.

Audit Objective #18

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

Status as of May 9, 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.

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 – May 9, 2011

Legislative Audit Management Letter Finding #7:

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

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

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

Legislative Audit Recommendation for Management Letter Finding #7:

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

Arkansas Lottery Commission – Internal Audit

**Review of Findings and Recommendations from the Division of Legislative Audit's
June 30, 2010 Audit Report and Management Letter**

Status Report – May 9, 2011

Audit Objective #19

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

Status as of May 9, 2011

Audit fieldwork complete – 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.

Status as of May 9, 2011

Audit fieldwork planned

Lottery management met with officials from the Department of Finance and Administration (DFA) on May 3, 2011 to discuss the Lottery's payroll being processed through the Arkansas Administrative Statewide Information System (AASIS). The lottery is awaiting a cost proposal from DFA. Utilizing AASIS to process the Lottery's payroll would resolve these issues.

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 – May 9, 2011

Legislative Audit Management Letter Finding #8:

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

Legislative Audit Recommendation for Management Letter Finding #8:

We recommend the Agency strengthen internal controls over cash receipts.

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.

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 – May 9, 2011

Legislative Audit Management Letter Finding #9:

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

Legislative Audit Recommendation for Management Letter Finding #9:

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

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

Audit Objective #24

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

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.

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 – May 9, 2011

Legislative Audit Management Letter Finding #10:

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

Legislative Audit Recommendation for Management Letter Finding #10:

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

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.

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 – May 9, 2011

Legislative Audit Management Letter Finding #11:

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

Legislative Audit Recommendation for Management Letter Finding #11:

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

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.

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 – May 9, 2011

Audit Objective #29

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

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.

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 – May 9, 2011

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.