

## MINUTES

### **ARKANSAS LOTTERY COMMISSION**

**Wednesday, November 19, 2014**

**11:00 a.m.**

**Taylor Room**

**William F. Rogers Conference Center**

**University of the Ozarks**

**Clarksville, Arkansas**

#### **Call to Order**

Chairman Campbell called the meeting to order. Commissioners Baldrige, Lamberth, Frazier, Scott and Streett were also present. Commissioners Hammons, Engstrom and Pierce were present via conference call. ALC employees Director Woosley and Internal Auditor Brown were present, as were staff members Block, M. Smith, Ralston, Bunten, Backes, Vick, Fetzer, Stebbins, Basham, Craig, J. Smith, and others.

#### **Opening Remarks**

University of the Ozarks President Richard Dunsworth welcomed the Arkansas Lottery Commissioners to the campus and introduced them to two UO students. Ryan Smith, a senior majoring in Business Management and Marketing and Rob Elder, a senior majoring in Mathematics and Secondary Education, discussed their academic goals and how the Arkansas Academic Challenge Scholarship has made it easier to achieve them.

#### **Approval of Minutes**

The first order of business was the approval of the minutes of the meeting held on October 15, 2014. Commissioner Baldrige made a motion to accept the minutes, Commissioner Scott seconded the motion, and the motion passed unanimously.

#### **Report from the Internal Auditor**

Mr. Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that Project No. 5, an audit of ALC's Records Retention, was in progress. Audit Project No. 12, Lottery Facilities Security and Controls, was complete and a report was issued on October 27, 2014. One finding was reported: keys issued to ALC employees have never been inventoried, including the number of keys and the areas within ALC to which the keys provide access. Additional follow-up is necessary to consider the observation cleared. Field work began for Audit Project No. 24, Cash Management & Receipts, during the week of November 10 and is ongoing. Project No. 31, an audit of the Unclaimed Prize Fund, was complete and a report issued on October 24, 2014. No observations or recommendations were reported. Audit Project No. 42, Building and Facility Maintenance, was substantially complete, with the report issuance expected within 10 business days.

#### **Report from the Director**

Director Woosley was recognized to give his report (in file). He noted that online ticket sales were down and instant ticket sales were up compared to October 2013, a continuation

of the trend he reported last month. Online ticket sales for October 2014 were down \$348,171 compared to October 2013, and instant tickets were up \$38,199 compared to the same period last year. In reviewing the October 2014 Actual vs. Budget, sales in both instant and online ticket sales were a little less than anticipated. Overall ticket sales were down \$1.3 Million from the budgeted amount. On the Year-to-Date Comparative Income Statement, total revenues were down \$6.5 Million compared to last year, which he attributed to the continuing decline in Powerball ticket sales. Director Woosley said that transfers to ADHE were currently \$1.34 Million under budget.

Director Woosley presented a GTech offer for the instant ticket property, Bejeweled™. He reminded Commissioners of the clause in the (amended) contract with SGI which gives ALC the right to obtain printing services from any third party for a game if SGI does not have the printing capacity or they do not have the ability to obtain the rights to the third party's intellectual property. He stated that the Bejeweled™ ticket, which has a price point of \$3, would launch in April, 2015. The original licensing fee offer was 2% of potential sales; GTech recently updated the offer to 1% of potential sales. Commissioner Engstrom asked that ALC track the performance of any games that are sourced outside of the normal contract, stating that the data would be useful as part of the scoring process during ALC's consideration of a new instant ticket vendor contract. Commissioner Engstrom further requested that the Internal Auditor incorporate tracking of external vendor performance into his audit plan. **Commissioner Baldrige made a motion to approve the GTech Bejeweled™ licensing fee agreement and the motion was seconded by Commissioner Campbell. The motion passed unanimously.**

Director Woosley asked that the Commission consider a proposal recently offered by MDI (a Scientific Games company). MDI offered, as a goodwill gesture, to reduce the rate the Lottery pays for funding its Properties Plus loyalty program from 1.5% of instant ticket prize structures to 1.35% of instant ticket prize structures. This rate reduction will result in an increase of approximately \$340,000 which will be prizes which can be won by players in the game as opposed to funding points for prizes redeemed in the Players Club. Additionally, there will be no reduction in services related to the proposed change. **Commissioner Lamberth made a motion to accept MDI's proposal to reduce the rate ALC pays for funding its Properties Plus loyalty program from 1.5% of instant ticket prize structures to 1.35% of instant prize structures. Commissioner Baldrige seconded the motion, and the motion passed unanimously. The proposal would be presented to the Arkansas Lottery Commission Legislative Oversight Committee for review at the next ALCLOC meeting.**

Director Woosley presented to the Commission a proposal by Intralot for an extension of the online gaming contract, which is due to expire in August 2016. He said that the Intralot proposal of November 13, 2014 (in file) was presented to him as the company's "best/firm" offer. The proposed terms included a rate reduction to 2.17% of instant and online ticket sales, which would be a reduction of .28% from the current rate of 2.45% that ALC pays for instant and online ticket sales. The reduction in costs would be approximately 11.3%, which would translate to \$1.1 to \$1.2 Million savings each year of the contract extension. In addition to the rate reduction, Intralot is offering a \$100,000 marketing allowance on a one-time basis.

Commissioner Engstrom said that when ALC proposed a rate of 1.95%, he considered the 2.17% rate a step toward closing a gap, rather than the final offer. He added that he was not in favor of accepting 2.17%; he would prefer to wait and see if Intralot was willing to reconsider. He reminded the Commission that the original [online contract] rate of 2.45% was based on high risk and start-up costs.

Director Woosley asked that the Commission take into consideration the timing involved if ALC decided to issue an RFP for online gaming services. December would be the drop-dead period for decision making: The RFP would have to be issued in April of 2015 because conversion of services [from one vendor to another] takes about a year. Conversion would not only take a long time, but it could impact ALC financially due to interruptions in service and because of the potential loss of retailers.

After discussion, Commissioner Lamberth asked the Commission whether or not it, as a body, was comfortable enough with the belief that Intralot's offer of 2.17% was in fact its final offer to be able to vote [on the contract extension].

Chairman Campbell recognized Intralot representative Steve Beck to address the Commission. He stated that although he could not speak for Intralot CEO Tom Little, he believed the door remained open for continued negotiations. He said that ALC requested a best and final offer; at that point in the discussion, Intralot's understanding was that ALC's proposed rate was 2.15%. Consequently, Intralot countered with 2.17%. Commissioner Engstrom stated there was never a 2.15% offer from ALC. After it was determined that there was probably some miscommunication, Mr. Beck repeated that Intralot most likely would be willing to continue negotiating the contract extension. Chairman Campbell asked Mr. Beck to contact Mr. Little to see if negotiations could continue and Mr. Beck responded in the affirmative.

Commissioner Lamberth requested that, if both parties were able to clarify the terms of the proposal and a tentative agreement was reached, the Chairman call an ALC meeting via conference call to try and reach a decision prior to the December 5 ALCLOC meeting. The Chairman polled the Commission and it was determined that all would be available for a conference call, possibly on this coming Monday.

Director Woosley stated that he had one remaining item for business, which was to request the Commission's approval to withdraw the amount of \$218,164.93 from Unclaimed Prizes to pay a MUSL assessment. He explained that the Monopoly Millionaires' Club top prize was won in the 3<sup>rd</sup> draw; the total amount of prizes had not yet been funded and each state participating in the game was assessed by MUSL to cover the costs of the prize payout. **Commissioner Lamberth made a motion to approve the withdrawal of \$218,164.93 out of the Unclaimed Prizes account for payment of the MUSL assessment. Commissioner Baldrige seconded the motion, and the motion passed without dissent.**

### **Reports from ALC Committees**

**Personnel Committee:** Commissioner Scott reported that the Committee met for consideration of two issues. The first was a request from the Director to use a vacant Claims Assistant position as a trainee slot for a Licensing Specialist position. The Licensing Manager will be retiring in early 2015 and another Licensing Specialist will be relocating to NE Arkansas as soon as he can find employment in the area. Since those two employees constitute two-thirds of the Licensing Department, it is imperative that ALC have a replacement trained and ready to go as soon as a vacant position becomes available. The request was unanimously approved by the Committee. He asked that the Commission accept the Committee report in the form of a motion. **Commissioner Lamberth seconded the motion to use a vacant Claims Assistant position as a trainee slot for a Licensing Specialist position and the motion was approved unanimously.**

Commissioner Scott also reported that the Committee unanimously approved a change to the ALC Employee Handbook. The change to the *Employment Status* section of the handbook better defines how a part-time employee accrues holiday, annual and sick leave. He asked that the Commission accept his report in the form of a motion. **Commissioner Frazier seconded the motion to accept a change to the *Employment Status* section of the Employee Handbook, and the motion passed unanimously.**

**Vendor Committee:** Nothing to report.

**Retail and Marketing Committee:** Nothing to report.

**Higher Education Committee:** Nothing to report.

**Audit and Legal Committee:** Nothing to report.

### **Other Business/Next Meeting Date**

Chairman Campbell stated that the next Commission meeting would be held on **January 21, 2015.**

There being no further business, the meeting was adjourned.

## MINUTES

**ARKANSAS LOTTERY COMMISSION  
Special Meeting via Conference Call  
Monday, December 29, 2014  
2:00 p.m.  
124 West Capitol Avenue, Third Floor  
Little Rock, Arkansas**

### **Call to Order**

Vice Chairman Baldrige called the meeting to order via conference call, explaining that Chairman Campbell had asked her to chair the meeting because he had lost his voice. Also present by telephone were Chairman Campbell, Pierce, Engstrom, Frazier, Hammons, Lamberth, Scott and Streett. ALC employee Director Woosley was present, as were staff members Backes, Ralston, Vick, J. Smith, and others.

### **Consideration of Extension of the Online Lottery Game Services and Lottery Gaming System and Services Contract**

Commissioner Baldrige recognized Director Woosley, who requested that the Commission approve an extension of the existing RFP with Intralot, Inc. for Online Lottery Game Services and Lottery Gaming System and Services. The original contract was awarded to Intralot and the agreement signed on August 15, 2009. The rate that ALC is currently paying Intralot is 2.45% of net sales of online and instant sales. The contract was amended on August 1, 2012, to add 600 Player Advertising Displays (PADS) in exchange for 400 26-inch monitors. He said that Intralot has also provided an annual SAS-70/SOC1-2 audit, at their cost. For the past two years they have donated, on behalf of the ALC, \$20,000 [each year] to the Upward Bound program.

Director Woosley said that negotiations began around the March/April time frame, and at the November ALC meeting, an offer was considered and rejected. Negotiations continued and on December 3, 2014, a final offer was received, which he now presented to the ALC for consideration:

1. Intralot accepts all three available 1-year extensions to the Contract, commencing August 15, 2016, through August 14, 2019;
2. Intralot will continue to be compensated at the rate of 2.45% of instant and online sales until July 1, 2015;
3. Thereafter until the extension years expire on August 14, 2019, Intralot shall be compensated at the rate of 2.165% of instant and online sales; and
4. Intralot will provide a one-time marketing allowance of \$100,000 and will continue to provide annually to ALC through the extension years a \$25,000 commitment for System audit fees and a \$25,000 commitment for charitable contributions supported by ALC.

Director Woosley stated that savings, based on \$422 Million in sales, is the difference between 50 months at 2.45%, or over \$43 Million versus 50 months at 2.165%, or about \$38 Million. That would constitute total savings of over \$5 Million.

Discussion followed.

**Commissioner Frazier made a motion to accept the extension of the Online Lottery Game Services and Lottery Gaming System and Services Contract. Commissioner Lamberth seconded the motion. Commissioners Campbell, Baldrige, Frazier, Lamberth, Pierce, Scott, Hammons and Streett voted yes, Commissioner Engstrom voted no, and the motion carried. The contract extension was approved and would be forwarded to the Arkansas Lottery Commission Legislative Oversight Committee for review at their next meeting.**

There being no further business, the meeting was adjourned.

# Arkansas



## Scholarship Lottery

**Report from the Director**  
**January 21, 2015**

# Recent Winners



**Brenda Jackson** of Pine Bluff bought a \$10 *Super Jumbo Bucks* ticket at Lottery retailer Town & Country on Middle Warren RC in Pine Bluff, and won **\$500,000**. She said she was going to pay some bills and invest the rest.



**Nikita Jackson** of Russellville (pictured with her husband, David) bought a \$5 *Cashtastic* ticket at ASY Enterprises in Russellville and ended up winning \$100,000. She and her husband hope to use the prize to purchase a new home.



# THREE TIMES LUCKY?

Or just proof that, “If you don’t play, you can’t win!”?



On December 23, 2014 (yes, two days before Christmas!), Stephen Weaver won **\$10,000** playing a \$20 instant ticket, **\$1 Million Riches**. A nice prize, but a little ordinary, you say?

Until you stop to consider that *last year* the *same* Stephen Weaver of Stuttgart, along with his wife, Terri, got **DOUBLE** lucky. On their way to Greers Ferry Lake, the Weavers stopped at T-Ricks convenience store in Pangburn and Stephen bought a **\$1 Million Riches** instant ticket. On the way home, they stopped again at T-Ricks and Terri bought a **Taxes Paid** instant ticket. The first ticket won them **\$1 Million**, and the second hit for **\$50,000**.

*This* time around, they’re planning on setting up a college fund for their granddaughter.

# Comparative Income Statements

## For December 2014 and December 2013

GAAP Basis Income Statement	<u>December 2014</u>	<u>December 2013</u>	Favorable/ (Unfavorable)	Percentage Variance
<b>Revenues</b>				
Instant Tickets	\$ 28,982,078	\$ 25,057,253	\$ 3,924,825	15.7%
Online Tickets	5,481,417	10,384,815	(4,903,398)	-47.2%
Retailer App, Fidelity and Other	44,237	53,945	(9,708)	-18.0%
<b>Total Revenues</b>	<b>34,507,732</b>	<b>35,496,013</b>	<b>(988,281)</b>	<b>-2.8%</b>
<b>Operating Expense</b>				
Instant Game Prizes	20,501,988	17,472,020	(3,029,968)	-17.3%
On-Line Game Prizes	2,903,948	5,747,640	2,843,692	49.5%
Retailer Commissions	1,944,675	1,972,466	27,791	1.4%
Gaming Contract Costs	1,663,294	1,769,377	106,083	6.0%
Marketing and Advertising	533,191	566,926	33,735	6.0%
General and Administrative	587,345	485,080	(102,265)	-21.1%
Other Agencies Services	74,000	91,233	17,233	18.9%
<b>Total Operating Expenses</b>	<b>28,208,441</b>	<b>28,104,742</b>	<b>(103,699)</b>	<b>-0.4%</b>
<b>Operating Income</b>	<b>6,299,291</b>	<b>7,391,271</b>	<b>(1,091,980)</b>	<b>-14.8%</b>
<b>Interest Income</b>	<b>19,711</b>	<b>24,713</b>	<b>(5,002)</b>	<b>-20.2%</b>
<b>Income Before Transfers</b>	<b>\$ 6,319,002</b>	<b>\$ 7,415,984</b>	<b>\$ (1,096,982)</b>	<b>-14.8%</b>
<b>Net Proceeds</b>	<b>\$ 5,474,319</b>	<b>\$ 5,831,219</b>	<b>\$ (356,900)</b>	<b>-6.1%</b>

Note – Net Proceeds does not includes unclaimed prizes.

# Comparative Income Statements

## For December 2014 Actual Versus Budget

GAAP Basis Income Statement	December 2014 Actual	December 2014 Budget	Favorable/ (Unfavorable)	Percentage Variance
<b>Revenues</b>				
Instant Tickets	\$ 28,982,078	\$ 25,774,005	\$ 3,208,073	12.4%
Online Tickets	5,481,417	6,920,721	(1,439,304)	-20.8%
Retailer App, Fidelity and Other	44,237	47,900	(3,663)	-7.6%
<b>Total Revenues</b>	<b>34,507,732</b>	<b>32,742,626</b>	<b>1,765,106</b>	<b>5.4%</b>
<b>Operating Expense</b>				
Instant Game Prizes	20,501,988	18,331,084	(2,170,904)	-11.8%
On-Line Game Prizes	2,903,948	3,641,369	737,421	20.3%
Retailer Commissions	1,944,675	1,830,910	(113,765)	-6.2%
Gaming Contract Costs	1,663,294	1,610,461	(52,833)	-3.3%
Marketing and Advertising	533,191	416,667	(116,524)	-28.0%
General and Administrative	587,345	690,709	103,364	15.0%
Other Agencies Services	74,000	66,667	(7,333)	-11.0%
<b>Total Operating Expenses</b>	<b>28,208,441</b>	<b>26,587,867</b>	<b>(1,620,574)</b>	<b>-6.1%</b>
<b>Operating Income</b>	<b>6,299,291</b>	<b>6,154,759</b>	<b>144,532</b>	<b>2.3%</b>
<b>Interest Income</b>	<b>19,711</b>	<b>11,667</b>	<b>8,044</b>	<b>68.9%</b>
<b>Income Before Transfers</b>	<b>\$ 6,319,002</b>	<b>\$ 6,166,426</b>	<b>\$ 152,576</b>	<b>2.5%</b>
<b>Net Proceeds</b>	<b>\$ 5,474,319</b>	<b>\$ 5,691,426</b>	<b>\$ (217,107)</b>	<b>-3.8%</b>

Note – Net Proceeds does not include unclaimed prizes.

# Comparative Income Statements

## YTD December 31, 2014 Compared to YTD December 31, 2013

GAAP Basis Income Statement	Actual YTD 12/31/14	Actual YTD 12/31/13	Favorable/ Unfavorable	Percentage Variance
<b>Revenues</b>				
Instant Tickets	\$ 157,245,165	\$ 151,620,510	\$ 5,624,655	3.7%
Online Tickets	33,749,149	47,503,200	(13,754,051)	-29.0%
Retailer App, Fidelity and Other	297,408	294,374	3,034	1.0%
<b>Total Revenues</b>	<b>191,291,722</b>	<b>199,418,084</b>	<b>(8,126,362)</b>	<b>-4.1%</b>
<b>Operating Expense</b>				
Instant Game Prizes	112,623,035	107,821,743	(4,801,292)	-4.5%
On-Line Game Prizes	17,335,960	25,132,772	7,796,812	31.0%
Retailer Commissions	10,741,844	11,094,051	352,207	3.2%
Gaming Contract Costs	9,692,045	9,788,270	96,225	1.0%
Marketing and Advertising	2,349,583	2,099,764	(249,819)	-11.9%
General and Administrative	3,610,915	3,530,998	(79,917)	-2.3%
Other Agencies Services	446,480	547,398	100,918	18.4%
<b>Total Operating Expenses</b>	<b>156,799,862</b>	<b>160,014,996</b>	<b>3,215,134</b>	<b>2.0%</b>
<b>Operating Income</b>	<b>34,491,860</b>	<b>39,403,088</b>	<b>(4,911,228)</b>	<b>-12.5%</b>
<b>Interest Income</b>	<b>122,989</b>	<b>142,366</b>	<b>(19,377)</b>	<b>-13.6%</b>
<b>Income Before Transfers</b>	<b>\$ 34,614,849</b>	<b>\$ 39,545,454</b>	<b>\$ (4,930,605)</b>	<b>-12.5%</b>
<b>Net Proceeds</b>	<b>\$ 32,533,620</b>	<b>\$ 36,690,475</b>	<b>\$ (4,156,855)</b>	<b>-11.3%</b>

Note – Net Proceeds does not includes unclaimed prizes.

# Arkansas Lottery Commission

## ADHE Transfer Analysis

Month	2015 Transfers	2015 Unclaimed Prizes	2015 Budget	Over/Under Budget	Cumulative Balance
July, 2014	\$ 5,928,448	\$ 700,364	\$ 6,012,876	\$ 615,936	\$ 615,936
August	\$ 5,296,966	\$ 437,855	\$ 6,144,757	\$ (409,936)	\$ 206,000
September	\$ 4,317,227	\$ 182,512	\$ 6,154,822	\$ (1,655,083)	\$ (1,449,083)
October	\$ 5,939,626	\$ 582,802	\$ 6,415,976	\$ 106,451	\$ (1,342,631)
November	\$ 5,577,035	\$ 81,896	\$ 6,140,335	\$ (481,404)	\$ (1,824,035)
December	\$ 5,474,319	\$ 664,812	\$ 6,166,426	\$ (27,295)	\$ (1,851,331)
January, 2015					
February					
March					
April					
May					
June					
Sub total	\$ 32,533,620	\$ 2,650,241	\$ 37,035,192		
Reserve Adj for Monopoly GPW		\$ (218,165)		\$ (218,165)	\$ (218,165)
Totals	\$ 32,533,620	\$ 2,432,076	\$ 37,035,192		\$ (2,069,495)

**WIN \$1,000  
EVERY DAY  
OF YOUR LIFE!**



**DRAWINGS EVERY MONDAY & THURSDAY AT 9:38 P.M. CT**



**Year to Date  
Online Sales  
12/31/2014**

**\$33,749,149**

**Year to Date  
Online Sales  
12/31/2013**

**\$47,503,200**

**Percentage  
Favorable/Unfavorable  
Variance**

**(13,754,051)**

**-29%**

**U.S. lotteries ranked % chg. FY14 draw  
(in US\$)**

Rank		Draw (\$M)	% Chg.
1	California	1,745.7	22%
2	New York	3,637.0	7%
3	Kentucky	336.5	4%
4	Arkansas	87.7	4%
5	Michigan	1,675.5	4%
6	Ohio	1,310.1	4%
7	Virginia	822.2	3%
8	New Jersey	1,370.0	2%
9	Washington	215.8	1%
10	Georgia	1,294.7	1%
11	Delaware	97.7	1%
12	Indiana	316.1	0%
13	Connecticut	452.2	-1%
14	Massachusetts	1,430.0	-1%
15	South Carolina	388.9	-1%
16	North Carolina	669.0	-1%
17	Florida	1,951.1	-2%
18	Missouri	375.3	-2%
19	Maryland	1,244.4	-2%
20	Pennsylvania	1,354.7	-3%
21	New Mexico	66.2	-3%
22	North Dakota	27.0	-3%
23	Illinois	1,034.4	-4%
24	Wisconsin	229.9	-4%
25	Texas	1,104.4	-4%
26	West Virginia	83.1	-5%
27	Kansas	112.4	-5%
28	Louisiana	270.0	-5%
29	Oklahoma	105.3	-5%
30	Nebraska	73.1	-5%
31	D.C.	175.2	-5%
32	Vermont	26.3	-6%
33	Rhode Island	158.8	-6%
34	Oregon	201.1	-6%
35	Idaho	63.0	-6%
36	Arizona	235.7	-7%
37	Montana	36.8	-7%
38	New Hampshire	80.3	-7%
39	Colorado	183.0	-7%
40	Minnesota	179.9	-8%
41	Iowa	109.6	-9%
42	South Dakota	29.0	-9%
43	Maine	48.2	-25%

Graph: from La Fleur's Magazine, Sep/Oct 2014

Year to Date  
Instant Ticket  
Sales  
12/31/2014

\$157,245,165

Year to Date  
Instant Ticket  
Sales  
12/31/2013

\$151,620,510

Favorable/Unfavorable

\$5,624,655

Percentage  
Variance

3.7%

U.S. lotteries ranked % chg. FY14 instant  
(in US\$)

Rank		Instant (\$M)	% Chg.
1	North Carolina	1,170.3	16%
2	Indiana	702.6	14%
3	Idaho	122.8	13%
4	Florida	3,417.1	13%
5	Virginia	988.6	11%
6	Arizona	483.9	11%
7	Louisiana	178.9	10%
8	California	3,288.9	9%
9	Michigan	900.1	9%
10	South Carolina	875.5	9%
11	Delaware	50.7	7%
12	Washington	379.4	7%
13	Kansas	134.6	6%
14	Pennsylvania	2,444.9	6%
15	Maine	170.8	5%
16	Wisconsin	337.7	4%
17	Georgia	2,727.5	4%
18	New Jersey	1,525.8	3%
19	Vermont	76.0	2%
20	Texas	3,280.2	2%
21	New Hampshire	194.7	1%
22	Nebraska	84.7	1%
23	Missouri	768.1	1%
24	Massachusetts	3,374.0	1%
25	South Dakota	25.9	0%
26	Kentucky	519.9	0%
27	New Mexico	69.8	0%
28	Ohio	1,424.9	0%
29	Illinois	1,757.4	-1%
30	Connecticut	660.2	-1%
31	Rhode Island	84.0	-1%
32	New York	3,677.1	-1%
33	Maryland	479.6	-1%
34	Colorado	362.0	-2%
35	West Virginia	105.6	-3%
36	Minnesota	351.6	-3%
37	Oklahoma	85.9	-4%
38	Montana	16.5	-4%
39	Iowa	188.8	-7%
40	Oregon	109.0	-7%
41	Arkansas	322.4	-9%
42	D.C.	44.2	-22%

Graph: from La Fleur's Magazine, Sep/Oct 2014



## Powerball Performance Analysis (LaFleur's 1/14/2015)

- In the first half of FY 2015, Powerball sales have **continued to decline** and are down 40% vs. the first half of FY 2014.
- Combined sales of Powerball and Mega Millions have **never experienced a major year over year decrease**. However, the 40% decline in Powerball sales for the first half of FY 2015 is occurring simultaneously with a decline in Mega Millions sales (-25%), hence FY 2015 Multi-State sales are poised to close with a significant decline.

# First Half\* FY14 vs. FY15 Powerball Sales

*Powerball sales decline pervasive across all jurisdictions, particularly for the original Mega Millions states*

State (\$M)	First Half FY14	vs	First Half FY15	% Change
Arkansas	\$20.0		\$11.6	-42.3%
California	\$269.7		\$151.1	-44.0%
Arizona	\$62.6		\$37.9	-39.5%
Colorado	\$47.2		\$30.8	-34.7%
Connecticut	\$46.7		\$29.2	-37.4%
District of Columbia	\$8.1		\$5.0	-38.5%
Delaware	\$15.4		\$9.3	-39.7%
Florida	\$261.5		\$157.9	-39.6%
Iowa	\$34.0		\$22.0	-35.1%
Idaho	\$20.1		\$13.3	-33.5%
Indiana	\$61.0		\$37.4	-38.6%
Kansas	\$22.6		\$15.5	-31.6%
Kentucky	\$44.9		\$29.1	-35.1%
Louisiana	\$57.5		\$36.8	-36.0%
Maine	\$12.3		\$9.1	-26.6%
Minnesota	\$45.2		\$28.1	-37.9%
Missouri	\$56.2		\$35.2	-37.3%
Montana	\$8.6		\$5.9	-31.4%
North Carolina	\$84.0		\$52.8	-37.1%
North Dakota	\$6.9		\$5.2	-24.3%
Nebraska	\$21.9		\$15.7	-28.3%
New Hampshire	\$20.1		\$13.0	-35.6%
New Mexico	\$18.8		\$12.0	-35.9%

State (\$M)	First Half FY14	vs	First Half FY15	% Change
Oklahoma	\$33.2		\$19.8	-40.3%
Oregon	\$24.9		\$15.5	-37.6%
Pennsylvania	\$170.5		\$101.4	-40.5%
Rhode Island	\$17.8		\$11.8	-33.5%
South Carolina	\$51.5		\$35.6	-30.9%
South Dakota	\$9.1		\$6.0	-34.8%
Tennessee	\$55.6		\$35.7	-35.9%
Virgin Islands	\$1.7		\$1.1	-34.7%
Vermont	\$5.3		\$3.8	-28.7%
Wisconsin	\$49.6		\$30.1	-39.4%
West Virginia	\$21.6		\$15.2	-29.6%
Georgia	\$75.8		\$46.7	-38.4%
Illinois	\$94.5		\$53.0	-43.9%
Massachusetts	\$61.7		\$40.1	-35.0%
Maryland	\$58.1		\$37.2	-35.9%
Michigan	\$73.8		\$45.2	-38.8%
New Jersey	\$137.7		\$66.9	-51.4%
New York	\$228.9		\$116.2	-49.2%
Ohio	\$69.8		\$42.2	-39.5%
Texas	\$142.7		\$89.6	-37.2%
Virginia	\$63.9		\$39.7	-37.9%
Washington	\$31.5		\$18.9	-40.1%
Total	\$2,724.5		\$1,635.5	-40.0%

Mega Millions States  
-42.6%

# Strong Evidence of Jackpot Fatigue (\$M)

FY14

Draw #	Wed 6/26/2013		Sat 12/28/2013	
	Jackpot	Sales	Jackpot	Sales
1	\$40	\$30.0	\$40	\$28.6
2	\$50	\$34.5	\$50	\$27.3
3	\$60	\$32.3	\$60	\$30.2
4	\$70	\$34.4	\$70	\$27.9
5	\$80	\$33.9	\$80	\$32.1
6	\$94	\$40.2	\$93	\$31.8
7	\$116	\$42.6	\$113	\$38.5
8	\$141	\$51.1	\$131	\$35.3
9	\$166	\$52.7	\$152	\$42.4
10	\$196	\$67.5	\$171	\$41.1
11	\$235	\$86.8	\$194	\$52.7
④ 12	\$290	① \$125.0	\$215	\$53.0
13	\$425	\$284.4	\$247	\$66.0
↓ 14			\$284	\$71.5
15			\$330	\$89.9
16			\$425	\$192.8
Total Sales	②	\$915.4	→	\$861.0
Average Sales per Draw	③	\$70.4	→	\$53.8

1. Draw sales at \$425M JP decreased by 32% over period of ~6 months
2. Total value of the series reaching the same high jackpot has also decreased (~6%)
3. An even greater decline can be seen in the average sales per draw in the series reaching the same high jackpot (~24%)
4. Compounding the decline in sales at jackpot parity is the slower roll up to reach a high jackpot (16 vs. 13 draws to get to \$425M)

# Slower Roll-up Caused by Decrease in Base Sales and Minimum Jackpot Roll

Draw #	Sales by Draw (\$M)				
	Sat 8/10/13	Sat 12/28/13	Sat 4/26/14	Sat 9/27/14	Wed 12/3/14
1	\$35.1	\$28.6	\$28.3	\$27.6	\$23.3
2	\$33.9	\$27.3	\$25.2	\$25.4	\$26.2
3	\$39.1	\$30.2	\$29.4	\$28.4	\$24.1
4	\$37.0	\$27.9	\$26.9	\$26.0	\$27.9
5	\$43.6	\$32.1	\$30.1	\$29.3	\$25.6
6	\$46.3	\$31.8	\$27.7	\$27.3	\$29.4
7	\$55.9	\$38.5	\$33.9	\$34.5	\$36.8
8	\$53.7	\$35.3	\$32.5	\$33.1	\$30.7
9	\$71.1	\$42.4	\$38.7	\$37.3	\$38.2
10	\$78.3	\$41.1	\$37.9	\$36.5	\$35.0
1-4	\$145.0	\$114.0	\$109.8	\$107.5	\$101.5

1. Total sales for the first four draws have decreased by ~30% over the past 18 months.

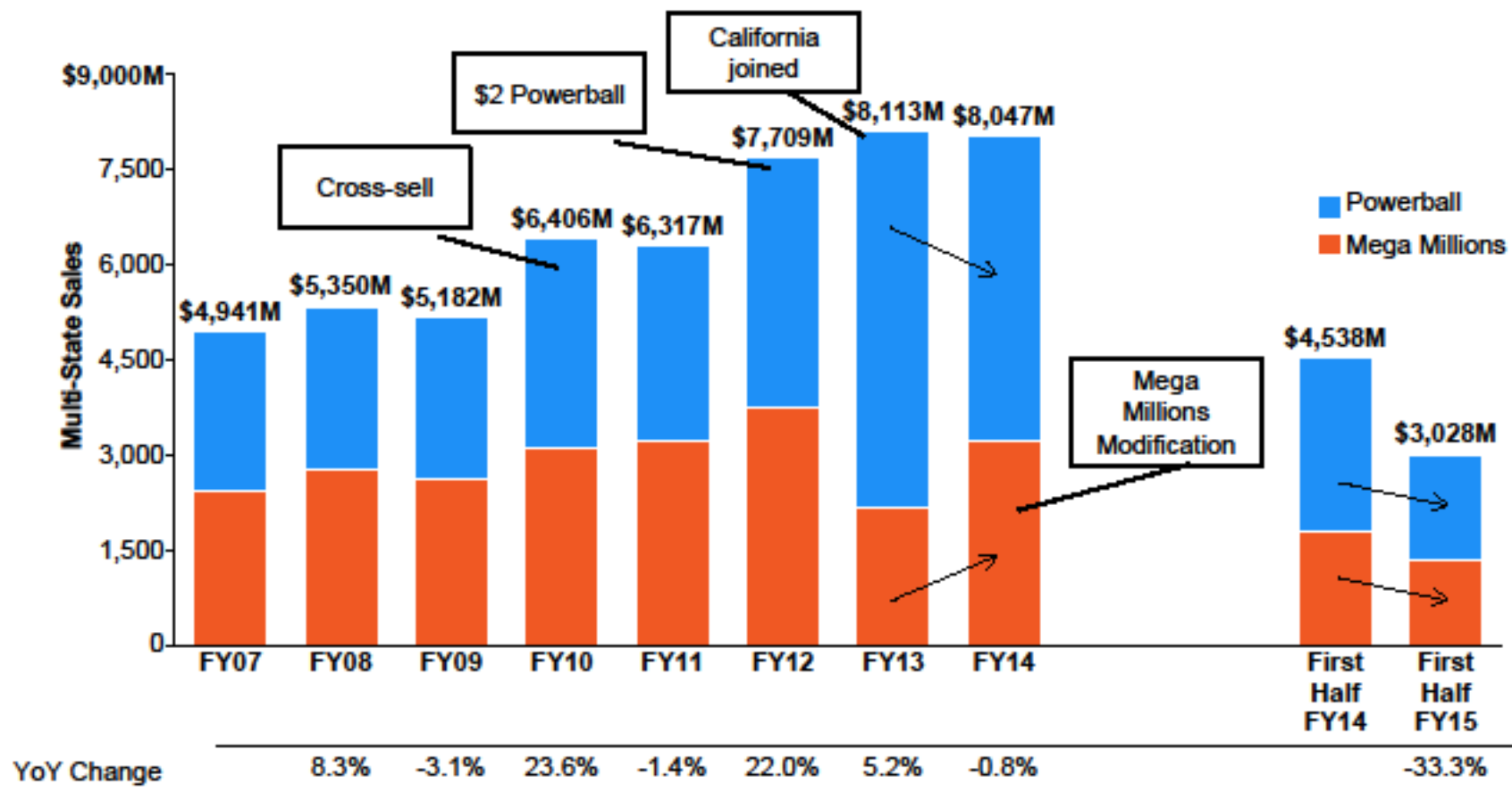
2. Minimum draw roll (+\$10M) occurring significantly later in series:

- Draw 4 – 8/10/13
- Draw 5 – 12/28/13
- Draw 7 – 4/26/14
- Draw 8 – 9/27/14
- Draw 9 – 12/3/14

Draw #	Jackpot by Draw (\$M)				
	8/10/13	12/28/13	4/26/14	9/27/14	12/3/14
1	\$40	\$40	\$40	\$40	\$40
2	\$50	\$50	\$50	\$50	\$50
3	\$60	\$60	\$60	\$60	\$60
4	\$70	\$70	\$70	\$70	\$70
5	\$92	\$80	\$80	\$80	\$80
6	\$116	\$93	\$90	\$90	\$90
7	\$142	\$113	\$100	\$100	\$100
8	\$169	\$131	\$114	\$110	\$110
9	\$203	\$152	\$132	\$125	\$120
10	\$245	\$171	\$152	\$142	\$131

# Powerball and Mega Millions Sales

*FY14 Powerball decline largely offset by Mega Millions performance (modification and record JP). First half FY15 Powerball decline not offset by MM, which is also declining*



# INSTANT TICKET SUPPLY AGREEMENT

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THIS INSTANT TICKET SUPPLY AGREEMENT ("**Agreement**") made and entered into effective as of January \_\_\_\_\_, 2015, by and between Pollard Banknote Limited, with offices at 1499 Buffalo Place, Winnipeg, MB Canada R3T 1L7 ("**Pollard**") and the Arkansas Lottery Commission, with offices at 124 West Capitol Avenue, Suite 1400, Little Rock, AR USA 72201 ("**Lottery**") (each a "**Party**" and collectively the "**Parties**") which sets out the terms pursuant to which Pollard will design, manufacture and deliver to Lottery a range of lottery tickets for onward sale to the public.

In consideration of the mutual covenants contained in this Agreement, the receipt and sufficiency of which is acknowledged, the Parties intending to be legally bound, agree as follows:

## 1. SUPPLY OF PRODUCTS

- 1.1 Subject to the terms and conditions of this Agreement, Lottery hereby engages Pollard as its non-exclusive provider of such Tickets as Lottery may request from time to time, and Pollard accepts such appointment.
- 1.2 Working Papers shall be agreed and executed by the Parties in respect of each order of Tickets by Lottery and shall be incorporated into this Agreement by reference as if written concurrently with the execution of this Agreement. Any inconsistency between the Working Papers and the terms of this Agreement shall be resolved by first giving effect to the terms of the Working Papers.

## 2. PRODUCT DETAILS AND PRODUCTION

- 2.1 The Tickets to be provided pursuant to the terms of this Agreement by Pollard are scratch-off, instant win lottery tickets to be manufactured in accordance with the technical specifications described in the Working Papers executed by the Parties from time to time.
- 2.2 In the absence of a detailed specification in respect of the supply of any Tickets or for the performance of any portion of this Agreement, the Parties agree that the applicable specification shall be the generally accepted industry standard for the manufacture of Tickets and related services.
- 2.3 Subject to Lottery's obligations under Section 9, Lottery shall be entitled, upon reasonable notice in writing to Pollard, to inspect the production of the Tickets at Pollard's manufacturing premises.

## 3. THE SERVICES

- 3.1 Pollard will perform the Services:
  - (a) in accordance with the Working Papers and the technical specifications specified therein which, for each order of Tickets, shall be substantially in the form attached as Appendix A;
  - (b) with reasonable skill and care;
  - (c) in compliance with all Applicable Laws;

- (d) in accordance with Lottery's reasonable instructions given in accordance with this Agreement;
  - (e) using the proprietary algorithm licensed for use by the Lottery and sublicensed for use by Pollard;
  - (f) performing the agreed upon procedures (AUP) on every game printed and will provide an independent accountant's report on applying the AUP substantially in the form attached as Appendix B; and
  - (g) by performing a trademark search for every game ordered from Pollard and providing a trademark search and clearance letter in a form acceptable to the Lottery.
- 3.2 Pollard will ensure that those Services to be performed by personnel are performed by sufficient numbers of its staff who are:
- (a) appropriately qualified and skilled; and
  - (b) employees of Pollard.

#### **4. PRICING**

- 4.1 The pricing matrix for the Tickets shall be as set forth in Appendix C and the pricing for each batch of Tickets shall be as confirmed in each applicable set of Working Papers.
- 4.2 Pollard shall invoice the Lottery upon delivery of the Tickets to the Lottery's premises. Payment for each batch of Tickets shall be made within thirty (30) days from the invoice issue date. If Lottery fails to pay when due any amount payable under this Agreement, Lottery shall pay to Pollard on demand interest on such unpaid amount from the date such amount was due, both before and after demand and judgment, until paid in full, at a rate equal to 3% per month, calculated daily and compounded monthly. The Lottery's obligation to pay in full all amounts due pursuant to this Agreement is absolute and unconditional under all circumstances and is not and shall not be subject to any claim, defence, set off, deduction, withholding or counterclaim for any reason whatsoever.

#### **5. OVER REDEMPTIONS**

- 5.1 The Parties agree that over redemption occurs any time Lottery pays or reimburses licensees, prize winners or any other persons or entities for prizes arising from sale of the Tickets which were not anticipated and approved in advance by Lottery in the Working Papers as a result of Pollard's error or an error of a third party or individual working on behalf of Pollard.
- 5.2 If over redemption occurs, Pollard agrees to reimburse Lottery for all liabilities incurred which are attributable to over redemption and to indemnify Lottery for all liabilities, damages, losses, claims, suits or actions, costs, expenses, and attorney's fees, arising from the over redemption.
- 5.3 If the Lottery interrupts a game due to over redemption as defined above, Pollard shall reimburse the Lottery for the aggregate of Lottery's purchase price from Pollard of any Tickets not sold by Lottery due to the interruption of the game and the direct expenses of Lottery associated with the recall of the game together with a

proportionate share of any expenses incurred in advertising or promoting the game for which Lottery did not receive full value due to the interruption of the game.

- 5.4 Pollard shall reimburse Lottery's expenses on a proportionate basis which reflects the relationship which the number of Tickets unsold has to the number of Tickets ordered in the game. In determining the percentage of Tickets sold and unsold, the total delivered quantity delivered to Lottery shall be used, unless all deliveries have not yet been made, in which case, the ordered quantity shall be used. In either case, Lottery shall pay only for Tickets actually sold to the public.
- 5.5 If a game is interrupted as a result of over redemption, Pollard shall take all reasonable steps, including the payment of overtime, to ensure that the Lottery obtains replacement Tickets in the shortest possible time. Pollard shall not charge the Lottery for any additional expenses incurred to facilitate the expedited delivery of replacement Tickets.

## **6. WARRANTIES AND REPRESENTATIONS**

- 6.1 Pollard hereby warrants and represents to Lottery that:
- (a) it has the power and authority and all necessary licences, permits and consents to supply the Services under and in the manner contemplated by this Agreement and each set of Working Papers and to grant the rights and perform its obligations herein;
  - (b) the Services will be performed in accordance with Good Industry Practice and each set of Working Papers in a timely, efficient and safe manner;
  - (c) the Tickets shall be manufactured and delivered to Lottery in all material respects in accordance with the requirements of the Working Papers and will be safe for the use for which they were intended;
  - (d) the Tickets will be compiled and supplied with reasonable skill and care and will be accurate in all material respects;
  - (e) the Services will be performed in accordance with all Applicable Laws including without limitation all product liability and safety related laws;
  - (f) neither (i) any Tickets nor (ii) its performance of the terms of this Agreement and the Working Papers will infringe the rights (including Intellectual Property Rights) of any third party; and
  - (g) it will not do anything which could reasonably be considered to bring Lottery, any Lottery Affiliate or any of Lottery's (or its Affiliate's) brands into disrepute or damage the goodwill attached to them.

## **7. WARRANTY CLAIMS AND OBLIGATIONS**

Pollard, at Pollard's expense and at Lottery's option, shall deliver replacement Tickets or applicable portions thereof which are or become defective during the warranty period to Lottery's premises within a reasonable period of time after Pollard's receipt of the rejected item(s). The warranty period with respect to each batch of Tickets shall two (2) years from the date of receipt by Lottery of such batch of Tickets.



## **8. INTELLECTUAL PROPERTY OWNERSHIP**

8.1 Except as expressly agreed by the Parties in this Agreement, or in a formal written amendment to this Agreement signed by duly authorized officers of each Party:

- (a) Pollard shall be the Owning Party of all rights (including all Intellectual Property Rights) arising out of the processes, procedures and requirements related to the manufacture of the Tickets, (including without limitation, design, equipment, production techniques and technological processes) expressly excluding all rights in any Input Material.
- (b) except as expressly provided herein, nothing in this Agreement shall operate to create or transfer an ownership, license or other proprietary interest in any Proprietary Information, nor require the Disclosure by an Owning Party of any of its Proprietary Information, nor restrict, inhibit or encumber any Owning Party's right or ability to Dispose of, use, distribute, Disclose or disseminate in any way its own Proprietary Information or to release or modify by further agreement the obligations of the other Party or Others with respect to such Owning Party's Proprietary Information.
- (c) Lottery grants to Pollard a non-exclusive, revocable, non-transferrable, non-sublicensable licence to use the Input Materials for the sole purpose of providing the Services and developing and delivering the Tickets in accordance with this Agreement and any Working Papers, and provided that Pollard shall not make any alteration to or modification of any of the Input Materials without the prior written consent of Lottery and shall comply at all times with any brand guidelines provided by Lottery to Pollard from time to time.
- (d) Lottery trademarks, including game names, trade names and service marks furnished by Lottery to Pollard and used on materials produced pursuant to this Agreement shall remain the sole property of Lottery. Pollard shall not use these marks or names on products sold to any person or entity other than Lottery. Lottery's marks and specifications concerning the marks shall be provided to Pollard by Lottery. Lottery's marks and names shall be reproduced exactly as specified by Lottery and only in the quantity specified.

8.2 Pollard represents and warrants that its performance under this Agreement will not knowingly infringe any patent, copyright, trademark, service mark, or other Intellectual Property Rights of any other person or entity and that it will not constitute the unauthorized use or disclosure of any trade secret of any other person or entity.

8.3 Pollard, at its sole expense, will conduct trademark and service mark searches for all game names ordered from Pollard during the term of this Agreement. Pollard will provide Lottery's Legal Counsel or Gaming Director with a trademark clearance letter once it determines that a trademark or service mark is cleared for use. New trademarks and service marks developed for the exclusive use of the Lottery will be registered by Lottery Legal Counsel in the name of the Lottery for its sole use.

## **9. PERFORMANCE SECURITY**

9.1 In order to assure full performance of all obligations imposed on Pollard by contracting with the Lottery, Pollard will be required to provide performance security in an amount of two percent (2%) of the total Agreement price submitted by Pollard within ten (10) working days from the date of the Lottery's execution of this

Agreement. The form of security required shall be a performance bond such as is usually and customarily written and issued by surety companies licensed and authorized to do business in Arkansas or a cashier's/certified check. An irrevocable letter of credit from an Arkansas bank is also acceptable. The performance security should be made out to the Arkansas Lottery Commission and will be on file at the Lottery.

- 9.2 In the event of a breach of this Agreement, either through quality problems, late delivery, substitutions, non-performance, or other areas within the control of Pollard, the Lottery will notify Pollard in writing of the default and may assess reasonable charges against Pollard's performance security. If, after notification of default, Pollard fails to remedy Lottery's damages within ten (10) working days, Lottery may initiate procedures for collection against Pollard's performance security.
- 9.3 The performance security will be released at the end of the Agreement.

## 10. CONFIDENTIALITY

- 10.1 A Party that receives Proprietary Information of the other Party (the "**Receiving Party**") shall, with respect to that Proprietary Information:
- (a) Not use Proprietary Information disclosed to it pursuant to this Agreement for any purposes other than those permitted by this Agreement; and
  - (b) Not disclose Proprietary Information disclosed to it pursuant to this Agreement to any third Party other than someone assisting Pollard to complete its obligations under this Agreement.
- 10.2 Except as otherwise provided in this Agreement, the Disclosure of Proprietary Information shall not be construed as granting the Receiving Party any rights with respect to the other Party's Proprietary Information or any license under any patents, patent applications, copyrights and/or other intellectual property rights to which the Party that discloses its Proprietary Information (the "**Disclosing Party**") may then or thereafter own or hold licensing rights.
- 10.3 Disclosure of any Proprietary Information by a Receiving Party hereunder shall not be precluded if such Disclosure is (a) in response to a valid and legally enforceable order of a court or other government body or any political subdivision thereof; or (b) otherwise required by law, provided, however, that the Receiving Party before making such Disclosure must first (i) immediately upon receipt of such order notify the Disclosing Party of such order; and (ii) make and cooperate with the Disclosing Party in making, if available under applicable law, a good faith effort to obtain a protective order or other appropriate determination against or limiting disclosure or use of the Proprietary Information.
- 10.4 The obligations and restrictions provided in this Section 9 shall survive expiration or termination of this Agreement and shall, unless the Parties otherwise expressly agree in writing, apply to any other purchase and sale of Tickets on the same or different terms and conditions. It is further acknowledged that the obligations and restrictions in this Section 9 have applied and shall continue to apply to any and all information, material and goods provided by Pollard to Lottery prior to the date of this Agreement.

## 11. [Intentionally Deleted]

## **12. INSURANCE**

Pollard shall, at its own expense, maintain errors and omissions, over redemption and product liability insurance for not less than \$1,000,000 per occurrence, during the term of this Agreement and for two (2) years thereafter. Such insurance shall list the Lottery as an additional insured to the extent of Pollard's liability. Such insurance may not be cancelled or altered so as to affect the interest of the Lottery and shall continue throughout the entire period of this Agreement's validity and efficiency. Promptly following execution of this Agreement, Pollard shall deliver satisfactory evidence of such insurance coverage.

## **13. INDEMNIFICATION**

13.1 Subject to Section 13.3, Pollard agrees to defend, indemnify and hold Lottery, its employees, agents, Commission members, appointed officials and elected officials, harmless from any and all liabilities, damages, loss, claims, suits or actions, settlements, judgments, costs and expenses, related to or arising from:

- (a) any violation or breach of any of the warranties, representations or undertakings it provides pursuant to Section 6 of this Agreement;
- (b) any negligent acts or omissions of Pollard, its officers, employees, agents, contractors or subcontractors employed or engaged by Pollard in the performance of this Agreement; or
- (c) any event in which a third party asserts that Lottery's use (or use by a third party on Lottery's behalf) of a Ticket, Ticket design, and use or sale of Tickets provided by Pollard to Lottery is a violation of such party's rights (including any Intellectual Property Rights); provided, however, that Pollard's indemnification hereunder shall not extend to claims which relate directly to Input Material furnished to Pollard by Lottery.

13.2 Lottery will cooperate with Pollard in the defense of any action or claim brought against Pollard seeking damages or relief and will promptly give Pollard written notice of any such claim or threatened or actual suit or action, setting out, to the extent reasonably feasible, particulars thereof.

13.3 The parties agree that any and all disputes which may arise from this Agreement shall be governed and resolved under the Arkansas Lottery Commission Rules for Claims in Contracts or Torts.

## **14. TERM AND TERMINATION**

14.1 This Agreement shall commence as of October 1, 2014 and shall continue until it expires on September 16, 2016.

14.2 Notwithstanding Section 14.1, this Agreement may be terminated for convenience at any time by either Party, upon providing the other Party with thirty (30) days prior written notice.

14.3 Either Party may terminate this Agreement by service on the other Party of:

- (a) notice in writing having effect forthwith, if the other Party will become insolvent or have an administrator or administrative receiver appointed over the whole or any part of its assets or go into liquidation (whether compulsory or voluntary) otherwise than for the purposes of a bona fide amalgamation or

reconstruction or will make any agreement with its creditors or have any form of execution or distress levied upon its assets or cease to carry on business; or

- (b) not less than thirty (30) days' notice in writing specifying a material or persistent breach by the other Party of a material obligation and requiring that the breach is remedied, provided that the breach is not remedied during such notice period; or
- (c) notice in writing having effect forthwith specifying a material breach by the other Party of a material obligation which is not capable of remedy; or
- (d) notice in writing thirty (30) days prior to cancellations, that the Lottery no longer needs or desires the services or commodity specified in the contract or purchase order due to program changes, changes in laws, rules, or regulations, relocation of offices, or lack of appropriate funding.

14.4 Lottery may terminate this Agreement on written notice to Pollard if required by the State of Arkansas.

#### 14.5 Effect of Termination and Notice of Termination

- (a) Neither the expiration nor termination of this Agreement shall relieve either Party of any obligation previously accrued, nor any obligation accruing or arising thereafter under the provisions of this Agreement.
- (b) Upon any termination, Pollard shall complete the production of any Tickets not then yet completed by the time of notice of such termination and shall deliver such completed Tickets to Lottery in accordance with this Agreement and Lottery shall pay for such Tickets (provided they pass the relevant Acceptance Test Criteria).

14.6 On termination of this Agreement howsoever arising:

- (a) Pollard will immediately return to Lottery all Input Material;
- (b) at the other Party's request, a Party will deliver up to the other all of the other Party's confidential information (including their Proprietary Information) and copies thereof in their possession, power, custody or control at that time.

### 15. SUITABILITY

If Lottery, acting in good faith and in accordance with industry practice, determines Pollard to be Unsuitable (a "**Determination**"), Lottery shall give notice to Pollard of its Determination with sufficient detail to allow Pollard to understand the basis for the Determination and the evidence on which the Determination was based, thereafter Lottery may terminate this Agreement and any associated Working Papers immediately by giving written notice to Pollard.

### 16. GENERAL

16.1 Minority-Owned and Female-Owned Business Policy.

Participation by minority-owned and female-owned businesses is encouraged in this and all other procurements by Arkansas' state agencies. "Member of a Minority" is

defined at Arkansas Code Annotated § 23-115-103(15) as "a lawful permanent resident of this state who is: (a) African American; (b) Hispanic American; (c) American Indian; (d) Asian American; or (e) Pacific Islander American". "Minority-Owned Business" is defined at Arkansas Code Annotated § 23-115-103(16) as "a business that is owned by: (a) an individual who is a member of a minority who reports as his or her personal income for Arkansas income tax purposes the income of the business; (b) a partnership in which a majority of the ownership interest is owned by one (1) or more members of a minority who report as their personal income for Arkansas income tax purposes more than fifty percent (50%) of the income of the partnership; or (c) a corporation organized under the laws of this state in which a majority of the common stock is owned by one (1) or more members of a minority who report as their personal income for Arkansas income tax purposes more than fifty percent (50%) of the distributed earnings of the corporation". The Arkansas Economic Development Commission conducts a certification process for minority businesses. Vendors unable to include minority-owned business as subcontractors "may explain the circumstances preventing minority inclusion".

#### 16.2 Equal Opportunity Policy.

In compliance with section 5 of the Lottery Major Procurement Rules, Pollard agrees to provide the Office of State Procurement of the Arkansas Department of Finance and Administration with a copy of Pollard's Equal Opportunity policy (its "EO policy") in electronic format to the following email address: [camber.thompson@dfa.arkansas.gov](mailto:camber.thompson@dfa.arkansas.gov) or as a hard copy within thirty (30) days of executing the Agreement. The Office of State Procurement and the Lottery will maintain Pollard's EO policy on file. The submission is a onetime requirement but Pollard is responsible for providing updates or changes to their respective policies and for supplying EO policies upon request to other state agencies that must also comply with this statute.

#### 16.3 Act 157 of 2007 Employment of Illegal\_Immigrants.

Pursuant to Act 157 of 2007 (Arkansas Code Annotated § 19-11-105), all Vendors must certify prior to award of a contract or agreement that they do not employ or contract with any illegal immigrants in its contract with the State. Vendors shall certify online at: [http://www.arkansas.gov/dfa/procurement/pro\\_index.html](http://www.arkansas.gov/dfa/procurement/pro_index.html)

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

#### 16.4 Arkansas Lottery Commission Major Procurement Rules.

Pollard is subject to all requirements of the Lottery Major Procurement Rules whether such requirements are specifically set forth in this agreement or not.

#### 16.5 EO-98-04 Governor's Executive Order.

Pollard shall complete the disclosure forms located at [www.state.ar.us/dfa/procurement/pro\\_eo9804.html](http://www.state.ar.us/dfa/procurement/pro_eo9804.html) in accordance with Governor's Executive Order EO-98-04 as a condition of obtaining, extending, amending, or renewing a contract, lease, purchase agreement, or grant award with any Arkansas state agency.

16.6 Force Majeure.

Neither Party shall be liable to the other Party if the performance of any of its obligations under this Agreement is prevented or delayed because of causes beyond its reasonable control including, without limitation, fire, strike, war, insurrection, act of God, law, regulation and embargo of government agency, riot, or any other cause beyond its reasonable control and not due to such Party's own fault or negligence (an "**Excusable Delay**"). A Party shall be excused from its performance to the extent caused by such Excusable Delay; provided that such Party (i) gives notice of the Excusable Delay to the other Party promptly after its occurrence, (ii) uses its reasonable efforts (including executing any disaster plan) to overcome, mitigate and remove the cause of the event preventing or delaying performance, (iii) continues the performance of all its obligations under this Agreement that are not prevented or delayed and (iv) upon cessation of the Excusable Delay, promptly performs or completes performance of the obligations which were prevented or delayed. If an Excusable Delay continues for more than 30 days, either Party may terminate this Agreement upon providing written notice to the other Party.

16.7 Assignment; Binding Effect.

Neither Party shall assign or transfer this Agreement or any rights and obligations hereunder including without limitation, subcontracting of obligations, except to an Affiliate, without the other Party's prior written consent, which consent may be refused in such Party's absolute discretion. This Agreement and the transactions and other instruments provided for herein shall be binding upon and inure to the benefit of the parties, their legal representatives, successors, and permitted assignees.

16.8 Governing Law and Legal Actions.

This Agreement and any Working Papers entered into by the parties, including any claim, action, proceedings or dispute arising out of or in connection with them, shall be governed by and construed in accordance with the laws of Arkansas. The parties agree that any and all disputes which may arise from this Contract shall be governed and resolved under the Arkansas Lottery Commission Rules for Claims in Contracts or Torts.

16.9 No Waiver.

Either Party's (i) waiver of any performance by the other, (ii) waiver of any condition of this Agreement, or (iii) consent to any breach of this Agreement by the other, shall (a) be effective only if expressly set forth in a writing signed by the Party alleged to have waived or consented, and (b) not constitute or require an ongoing waiver of such performance or condition, or consent to any previous, different or subsequent breach, regardless of whether such performance, condition or breach is similar, identical or related, and regardless of the course of dealing which develops or has developed between the Parties.

16.10 Notices.

All notices, requests and other communications permitted or required to be given pursuant to this Agreement shall be in writing and shall be personally delivered, or sent by recognized delivery service, facsimile, electronic transmission or certified or registered mail with return receipt requested and with all postage prepaid, to the recipient Party at its address set forth below:

If to Pollard, at:

Pollard Banknote Limited  
1499 Buffalo Place  
Winnipeg, Manitoba  
R3T 1L7  
Fax No.: 204.453.1375  
E-mail: jwestbury@pbl.ca  
Attention: Jennifer Westbury, Executive Vice President,  
Sales & Customer Development

If to Lottery, at:

Arkansas Lottery Commission  
123 West Capitol Avenue, Suite 1400  
Little Rock, AR 72203  
Attention: Chief Legal Counsel

16.11 A facsimile or electronic transmission shall be deemed received on the date of transmission when transmitted to the facsimile number or e-mail address shown herein, provided such transmission is received prior to 5:00 p.m. on a business day and otherwise on the next business day. A delivered notice shall be deemed made three (3) business days after prepaid deposit, in the mail, or one (1) business day if by courier. Either Party may, by notice given in compliance with the provisions of this Section 16.10, designate another address for receipt of notice.

16.12 Entire Agreement.

This Agreement, together with its attached Appendix A, B and C and the contract elements ("Contract Elements"), which are incorporated by reference, constitute the entire agreement of the Parties respecting its subject matter. The Contract Elements order of priority shall be as follows: (a) this Instant Ticket Supply Agreement; (b) Any Certificates of Insurance or Bonds required pursuant to this agreement; Arkansas Lottery Commission Rules for Claims in Contracts or Torts; Arkansas Lottery Commission Procurement Contract and Vendor Rules; and (d) any future addenda, modifications or amendments to the contract which may be agreed to in writing between the parties. This supersedes all prior and contemporaneous communications and understandings and agreements, written or oral, between the parties relative to its subject matter and merges all discussions between them. Furthermore, in the event of any conflict or inconsistency between the provision of this Agreement and the provisions of the Working Papers, the provisions of the Working Papers shall govern. This Agreement may only be amended by subsequent written agreement duly executed by the Parties.

16.13 Severability

If any provision of this Agreement is determined by any court of competent jurisdiction or arbitrator to be invalid, illegal, or unenforceable to any extent, that provision shall, if possible, be construed as though more narrowly drawn, if a narrower construction would avoid such invalidity, illegality, or unenforceability or, if that is not possible, such provision shall, to the extent of such invalidity, illegality, or unenforceability, be severed, and the remaining provisions of this Agreement shall remain in effect provided, however, that the court shall have authority and jurisdiction to add to this Agreement a provision as similar in terms and intended effect to such

severed provision as may be possible and be legal, valid, and enforceable. If, as a result of the foregoing, a party's material benefits under this Agreement that would have existed but for the operation of the preceding sentence are materially impaired, such party may at such party's election thereafter terminate this Agreement on not less than three (3) months advance written notice to the other Party.

#### 16.14 Construction

The Parties acknowledge and agree that both Parties have participated in the drafting and negotiation of all provisions of this Agreement, and each Party hereby waives and agrees not to assert that any ambiguity should be construed for or against either Party. Except where the context clearly requires to the contrary, "including" shall mean "including, without limitation".

#### 16.15 Nature of Relationship

For the purposes of this Agreement, the Parties are deemed to be independent contractors. It is expressly agreed that this Agreement and the relationship between the parties hereby established do not constitute a partnership, joint venture, agency or contract of employment. Neither Party shall have the authority to make any statements, representations or commitments of any kind, or to take any action, which shall be binding on the other, except as authorized in writing by the Party to be bound. Neither Party shall bind nor attempt to bind the other to any contract or to the performance of any obligation, nor represent to third parties that it has any right to enter into any obligation on the other's behalf.

### 17. DEFINITIONS

In addition to the definitions appearing elsewhere in this Agreement, the following words and phrases shall have the meanings indicated:

**"Acceptance Test Criteria"** shall have the meaning set out in the applicable Working Papers.

**"Affiliate"** shall mean any entity directly or indirectly controlling, controlled by or under common control with that party where control means the ownership or control, directly or indirectly, of more than fifty percent (50%) of all of the voting powers of the shares (or other securities or rights) entitled to vote for the election of directors or other governing authority or otherwise having power to control such entity's general activities, but only for so long as such ownership or control shall continue.

**"Applicable Laws"** means all applicable statute, ordinance, law, treaty, rule, regulation, code, judicial precedent or order of any court or any governmental or regulatory entity, or other power, department, agency, authority, or officer whether at local, national or supra national level.

**"Create"** when used with reference to Proprietary Information means to conceive, make, develop, reduce to practice, author, or otherwise materially and substantially contribute to the existence of such Proprietary Information, such that the Proprietary Information that results can be fairly and reasonably attributed in whole or in material part to such contribution. Other forms of the word "Create" (e.g., Created, Creation, etc.) shall have substantially the same meaning as required by the context.

**"Derivative"** shall mean (i) for copyrightable or copyrighted material, any translation, abridgment, revision or other form in which an existing work may be recast, transformed or



adapted; (ii) for patentable or patented material, any improvement thereon; and (iii) for material which is protected by or is a Trade Secret or is otherwise Proprietary Information, any new material derived from such existing Trade Secret material or Proprietary Information, including but not limited to new material which may be protected by copyright, patent or Trade Secret.

**"Disclose"** shall mean to use, deliver, communicate or provide, or to use or benefit in any way or form including, by way of example and without limitation, in writing; electronically; in machine readable form; by demonstration; in tangible form; by access to plans, diagrams or equipment; or orally. Other forms of the word "Disclose" (e.g., Disclosure, Discloses, etc.) shall have substantially the same meaning as required by the context.

**"Dispose"** shall mean to practice, make, have made, use, license, grant rights to sublicense, lease, sell, Disclose, assign, encumber, dispose or otherwise exercise an incident of ownership. Other forms of the word "Dispose" (e.g., Disposition, Disposal, etc.) shall have substantially the same meaning as required by the context.

**"Gaming Approvals"** means any and all required approvals, authorisations, licences, permits, consents, findings of suitability, registrations, clearances, exemptions and waivers of or from any Gaming Authority, including those relating to the offering or conduct of lotteries, gaming and gambling activities.

**"Gaming Authority"** means collectively, those international, federal, state, local, foreign and other governmental, regulatory and administrative authorities, agencies, commissions, boards, bodies and officials responsible for or involved in the regulation of lotteries, gaming or gaming activities.

**"Good Industry Practice"** means using standards, practices, methods and procedures conforming to the law and exercising that degree of skill and care, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced person engaged in a similar type of undertaking under the same or similar circumstances;

**"Input Material"** means any content, materials, data, branding, trade marks, mathematical models, audio and audio-visual material, graphics, animation elements, and any other materials or information provided by Lottery to Pollard in accordance with this Agreement and/or any relevant Working Papers.

**"Intellectual Property Rights"** means all copyright, design rights, patents, trade marks, service marks, trade names, database rights, domain names, rights in know how, goodwill, and other rights of a similar nature enforceable anywhere throughout the world in all cases whether registered or unregistered and including applications for the grant of any such rights for the full unexpired period of any such rights and any extensions or renewals thereof.

**"Invention"** shall mean any invention, discovery, process, art, method (including mathematical algorithms), machine, manufacture, composition of matter, or improvement thereof, whether or not patented or patentable, to the extent that it is or is qualified to be the subject of an intellectual property right or intellectual property protection under the laws of any applicable jurisdiction under any applicable legal theory, including but not limited to rights or protections under patent, trade secret, or copyright laws or principles.

**"Made Known"** shall mean made known, received, developed, possessed or communicated, at any time before or after the date of this Agreement. "Rightfully Made Known" shall mean Made Known without, and "Wrongfully Made Known" shall mean Made Known with, any violation of any legally protectable and/or enforceable express or implied right, title, duty or

obligation of the owner of such Proprietary Information or third Parties from, by or through whom such knowledge passed.

**"Owning Party"** shall mean a Party to the extent that such Party has an ownership interest in any Proprietary Information.

**"Proprietary Information"** shall mean information or material relating to the existing or prospective business of a Party to this Agreement, as applicable, any information contained therein or Created therefrom, and any Derivatives thereof, including, by way of example and without limitation, technical, and/or business information such as processes, methods, techniques, systems, subroutines, source code, object code, documentation, diagrams and flow charts, analyses (including computer simulations), results, reports and information of all kinds Disclosed by the Disclosing Party to the Receiving Party. "Proprietary Information" shall also include Inventions, Works and Trade Secrets. Proprietary Information shall not include any information or material to the extent that the Receiving Party proves by a preponderance of the evidence that such information or material has been or becomes:

- (a) Rightfully Made Known to the Receiving Party without obligation of confidence; or
- (b) Rightfully Made Known to third parties who are neither under obligation of confidence nor who treat such Proprietary Information confidentially.

**"Proprietary Rights"** shall mean, in any country, (i) the right to file patent applications and any rights under patent applications; (ii) rights under a grant of letters patent or any similar form of statutory protection for inventions, such as utility model protection and industrial design protection; (iii) rights under copyright, trade secret, mask work or trademark law; and (iv) any other protectable intellectual property rights.

**"Services"** means the services to be performed by Pollard, as set out in this Agreement and as more particularly described in each set of Working Papers.

**"State of Arkansas"** means collectively, those state regulatory and administrative authorities, commissions, bodies and officials responsible for or involved in the regulation of lotteries, gaming or gaming activities in the State of Arkansas.

**"Tickets"** shall have the meaning set out in Section 2.1.

**"Trade Secret"** shall mean information Made Known to either Party, that is maintained by a Party in reasonable confidence such that it is not generally known and used in the Party's industry, and which gives or may give the Party a competitive, technical or other business advantage over the other Party, or third parties, who do not possess, know or use it.

**"Unsuitable"** means when Pollard: (i) is denied or disqualified from eligibility for any Gaming Approval or determined by a Gaming Authority to be unsuitable to be affiliated, associated or connected with any entity that holds a Gaming Approval; (ii) has an affiliation, association, connection or relationship with a third party which causes Lottery (or any of Lottery's Affiliates) to lose or have suspended, revoked, not renewed or denied, or be threatened by any Gaming Authority with the loss, suspension, revocation, non-renewal or denial of, a Gaming Approval; or (iii) is likely to preclude or materially delay, impede or impair, or jeopardize or threaten the loss, suspension, revocation, non-renewal or denial of a Gaming Approval of Lottery (or any of Lottery's Affiliates) or any such entity's application for, or right to the use of, entitlement to or ability to obtain or retain any Gaming Approval required for the operation of its business in any jurisdiction,

"**Work**" shall mean a work of authorship protectable under the copyright laws of an applicable jurisdiction, or a mask work protectable under the semiconductor chip protection laws of any applicable jurisdiction.

"**Working Papers**" shall mean each and every set of technical specifications for each order of Tickets, which for each order of Tickets, shall be substantially in the form attached as Appendix A and as and when executed by the Parties, be incorporated into this Agreement by this reference as an integral part hereof.

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**WITH INTENT TO BE BOUND**, Lottery and Pollard have executed this Agreement as of the date first indicated above.

**POLLARD BANKNOTE LIMITED**

Per:

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Douglas Pollard  
Co-Chief Executive Officer

**ARKANSAS LOTTERY COMMISSION**

Per:

---

Bishop Woosley  
Director

**Arkansas Lottery Commission  
Monthly Internal Audit Update  
January 21, 2015**

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**Arkansas Lottery Commission  
FY 2015 Internal Audit Plan Status Report  
January 21, 2015**

**Planned Audits or Reviews**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
4	Audit	Advertising Contract Compliance	Compliance with Advertising Contracts in place.	Scheduled		100
5	Audit	Record Retention	Development of and compliance with Records Retention policy and related laws, including the Arkansas Freedom of Information Act.	Complete	<b>Status Update:</b> Report issued January 6, 2015. See Page 5 for additional information.	-
6	Audit	Legal Compliance & Monitoring	Overall monitoring of ALC compliance with applicable laws.	Scheduled		100
6A	Audit	Major Procurement Contracts	Controls and procedures surrounding major procurement contract renewal and/or request for proposal decisions, vendor evaluation, and vendor selection processes.	In Progress	<b>Status Update:</b> Fieldwork in connection with the online contract extension is substantially complete; work relative to the instant contract discussions is just underway.	65
20	Audit	Public & Legislative Relations	Controls and procedures surrounding the administration of information provided to the press, members of the Arkansas General Assembly (including the Legislative Oversight Committee), and the Arkansas Lottery Commissioners.	Scheduled		80
22	Audit	Advertising & Marketing (excl Contract Compliance)	Controls and procedures surrounding the administration of the Advertising and Marketing functions, including strategy, spend, procurement/distribution of promotional items, and planning/administration of special events.	Scheduled		200
24	Audit	Cash Management & Receipts	Controls and procedures surrounding cash receipts.	Complete	<b>Status Update:</b> Report issued December 15, 2014. No observations or recommendations included in the report.	-
27	Audit	Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	Scheduled		80

**Arkansas Lottery Commission  
FY 2015 Internal Audit Plan Status Report  
January 21, 2015**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
41	Audit	Lottery Vehicles	Controls and procedures surrounding lottery fleet management and maintenance.	In Progress	<b>Status Update:</b> Fieldwork began the week of December 8, 2014 and is ongoing.	40
42	Audit	Building & Facility Maintenance	Controls and procedures surrounding building and facility maintenance, including compliance with applicable laws and regulations.	Complete	<b>Status Update:</b> Report issued November 25, 2014. See Page 6 for additional information.	-
47	Audit	Instant Ticket Reconstructions (Annually)	Controls and procedures surrounding instant ticket reconstruction requests.	Scheduled		85
48	Audit	Key System Conversion/Implementation (As Needed)	Controls and procedures surrounding data conversion, data migration, and implementation of new key systems.	See Comments	<b>Status Update:</b> Given Management's determination after further review that no accounting system conversion is needed, no hours are reflected in the plan for this project.	-

**Total Estimated Hours to Complete FY 2015 Audits & Reviews (Excluding Follow-Up)** 750

**Follow-Up Audit Projects Resulting from Previous Audits<sup>4</sup>**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
8F	Audit Follow-Up	Points for Prizes & Play It Again Follow-Up Procedures	Follow-Up on Observations from FY 2014 Follow-Up Audits.	Scheduled		35
12F	Audit Follow-Up	Lottery Facilities Security & Controls	Follow-Up on Observations from FY 2015 Process Audit.	Scheduled		25
14F3	Audit Follow-Up	Back Office System (BOS) Administration Follow-Up Procedures	Follow-Up on Observations from FY 2014 Follow-Up Audits.	Scheduled		40
19F2	Audit Follow-Up	Human Resources Processes Follow-Up Procedures	Follow-Up on Observations from FY 2014 Follow-Up Audit.	Scheduled		25
29F	Audit Follow-Up	Payroll & Leave Follow-Up Procedures	Follow-Up on Observations from FY 2014 Process Audit.	Scheduled		65
36AF	Audit Follow-Up	Financial Accounting & CAFR Follow-Up Procedures	Follow-Up on Observations from FY 2013 Process Audit.	Complete	<b>Status Update:</b> Report issued January 15, 2015. No observations or recommendations included in the report.	-
40AF	Audit Follow-Up	Transparency Reporting & Compliance Follow-Up Procedures	Follow-Up on Observations from FY 2014 Process Audit.	Substantially Complete	<b>Status Update:</b> Fieldwork began the week of September 15, 2014; awaiting final upload of FY 2014 data by DFA.	10

**Arkansas Lottery Commission  
FY 2015 Internal Audit Plan Status Report  
January 21, 2015**

**Consulting & Other Tracked Projects<sup>5</sup>**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
43	Consulting	Facilitation/Review of Risk Assessment coordinated by DFA (Biennially)	Risk Assessment requested by DFA.	In Progress	<b>Status Update:</b> Fieldwork is ongoing.	20
45	Consulting	Financial Statements & CAFR Review (Annually)	Review of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.	Complete	<b>Status Update:</b> Report issued January 15, 2015. No observations or recommendations included in the report.	-
46	Consulting	Instant Ticket Vendor Security Review (Annually)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.	Scheduled		24
49	Other	Performance Audit Coordination (Ad-Hoc)	Coordination of Performance Audit engagement expected to be awarded resulting from RFP.	In Progress		110
50	Other	External Assessment (Peer Review)	Internal Audit's Planned External Assessment for conformance with IIA Standards.	Planning Stage	<b>Status Update:</b> Fieldwork is planned for the week of February 9, 2015. Initial planning conference call and response to baseline planning requests has been completed.	110

**Total Estimated Hours to Complete FY 2015 Plan (Including Follow-Up, Consulting, and Other Tracked Projects)**

**1,154**

Notes

<sup>1</sup>Project Number based on number of all projects within the project universe. "F" indicates follow-up procedures. Follow-up procedures for audits in a given fiscal year may be incorporated into the following fiscal year's audit plan depending on several factors, including the timing of any Management remediation activities and available Internal Audit resources. See Page 7 for complete, numbered project universe.

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

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

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

<sup>5</sup>Consulting Projects or other items expected to require a significant portion of Internal Audit resource time that is being specifically tracked for reporting purposes.

**Arkansas Lottery Commission  
Record Retention Audit  
FY 2015  
January 21, 2015**

General Information

- The audit centered on controls, processes, and procedures designed to assure that the ALC has developed a record retention policy and document retention schedule, and that such policies and schedules are consistent with any legal requirements set forth in the Arkansas Freedom of Information Act (FOIA).
- Fieldwork included review of documentation and information generated through November 20, 2014.

Observations

- No update of the ALC's Records Retention Policy and related Records Retention Schedule since start-up of ALC operations.
  - Without regular review and maintenance of a records retention policy and accompanying schedules, the ALC cannot ensure that its policy remains relevant, is specific, and reflective of current business practices.
  - Management indicates that a review and update (as necessary) of the policy and retention schedule documentation was underway prior to the start of the audit, and is expected to be complete by June 30, 2015.
  - Internal Audit recommended that Management continue its review and tailor its policies and procedures to specifically address the records the ALC is known to produce, reflecting any necessary changes in the policy documentation no later than June 30, 2015.
  - Management responded stating concurrence with the recommendation.
  - Additional follow-up is necessary in order to consider the observation cleared.
- No log or other form of tracking FOIA requests and related disposition.
  - Without a log and related organizational system to file supporting documentation related to valid FOIA requests, it is difficult to demonstrate the ALC's full compliance with the FOIA.
  - Internal Audit recommended that Management develop a process to track FOIA requests received, including date received, requesting party, disposition, date of response, and reference to documentation or records that were provided in response to any such request.
  - Management responded stating concurrence with the recommendation.
  - Additional follow-up is necessary in order to consider the observation cleared.



**Arkansas Lottery Commission  
Building & Facility Maintenance Audit  
FY 2015  
January 21, 2015**

General Information

- The audit centered on controls, processes, and procedures designed to assure that ALC building and facilities are adequately maintained.
- Fieldwork included review of documentation and information generated through November 6, 2014.
- Due to the Arkansas Lottery Commission's decision on August 20, 2014 to close the ALC's Claim Centers in Springdale, Jonesboro, and Camden, evaluation of building and facility maintenance controls in these locations were not included within the scope of this audit.

Observation

- No formal process of tracking status of maintenance requests made to lessor, and use of space heaters in a manner inconsistent with ALC policy.
  - A space heater use policy was developed in December 2013 as a result of an inspection performed by the Arkansas Insurance Department (AID).
  - Without formal tracking of maintenance requests and without specific identification of ALC employee(s) with overall responsibility for facility maintenance matters, facilities could be poorly maintained.
  - Internal Audit recommended that Management concentrate facility maintenance oversight to a specific ALC employee, adopt a formal tracking process used to monitor lessor response to maintenance issued referred for action under the ALC's building lease, and perform an inspection to determine all space heaters in use and that such space heaters are used in accordance with ALC policy.
  - Management responded stating concurrence with all recommendations, noting that several attempts have been made to address facility maintenance responsibilities, which have been made more difficult by ensure compliance with State employment laws and policies.
  - Additional follow-up is necessary in order to consider the observation cleared.

**Arkansas Lottery Commission**  
**Internal Audit Project Universe and Tracked Internal Audit Projects**

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

Process Owner / Area	Audit History / Plan					
	FY	13	14	15	16	17
<b>Financial Control - Fetzer/Williams</b>						
27 Fixed Assets				X		
28 Accounts Payable/Purchasing/Expenditures	X, f				X	
29 Payroll & Leave		X	f			
30 Federal & State Tax Withholding & Reporting		X	f			
31 Unclaimed Prize Fund				X		X
32 Education Trust Fund	X					X
33 Travel Reimbursements	X				X	
34 Revenue/Prize Payments/Reserves - Online Games					X	
35 Revenue/Prize Payments - Instant Ticket Games					X	
36 Accounting Close & Reporting	X	f			X	
36A Financial Accounting & CAFR	X		f			X
37 Financial Planning/Budgeting	X				X	
<b>Information Technology - Fetzer</b>						
38 IT General Controls		X			X	
39 Disaster Recovery/Business Continuity		X			X	
40 IT Help Desk & Desktop Support			X			
40A Transparency Reporting & Compliance		X	f			X
<b>Internal Operations - Fetzer</b>						
41 Lottery Vehicles			X			X
42 Building & Facility Maintenance			X			X
<b>Recurring / Other Projects</b>						
43 Facilitation/Review of Risk Assessment requested by DFA (Biennially)			X			X
44 Gaming System SSAE 16 SOC1 Review (Annually)	X	X	X	X	X	X
45 Financial Statements & CAFR Review (Annually)	X	X	X	X	X	X
46 Instant Ticket Vendor Security Review (Annually)	X	X	X	X	X	X
47 Instant Ticket Reconstructions (Annually)		X, f	X	X	X	X
48 Key System Conversion/Implementation (As Needed)			X			
49 Performance Audit Coordination (Ad-Hoc)			X			
50 External Assessment (Peer Review)			X			

**Notes**

[1] X = Regularly scheduled Audit, Review, or Consulting Project planned or completed in year indicated  
 f = Follow-Up Audit, Review, or Consulting Project planned or completed in year indicated

[2] Due to merger of Cash Management & Receipts processes, no process number 26 currently exists.

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
Sen. Linda Chesterfield  
Senate Vice Chair  
Rep. John W. Walker  
House Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE  
DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Arkansas Lottery Commission  
and Members of the Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the major fund of the Arkansas Lottery Commission (the "Agency"), a commission of Arkansas state government, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Arkansas Lottery Commission's basic financial statements, and have issued our report thereon dated November 18, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described below in the Schedule of Findings and Responses as items 2014-1 and 2014-2.

## SCHEDULE OF FINDINGS AND RESPONSES

**2014-1** During review of payroll and other related items, we noted seven employees working schedules that fall outside the Agency's normal business hours. Six employees had either an offer letter or some other form in their personnel file documenting their scheduled working hours; however, there was no documented working schedule for the Agency Director. We also noted that the Agency does not have a Commission-approved policy for alternate work schedules, and none of the alternate working schedules appear to have been approved by the Governor. Governor's Policy Directive #5 states, "All State offices shall be open for business between 8:00 a.m. and 4:30 p.m. However, department directors shall have flexibility to establish other working hours for their department personnel so long as all employees work an eight-hour day. Deviations from the five day, 40-hour work week shall be approved by the Governor."

We recommend the Agency seek an Attorney General's opinion as to whether the Agency is exempt from Governor's Policy Directive #5. We further recommend the Agency adopt a written policy regarding alternate working schedules and obtain approval from the Commission and/or the Governor.

Management personnel responded: The ALC will review the finding and determine whether to change policy to conform with the finding or to seek an Attorney General's opinion.

**2014-2** Travel regulation R1-19-4-903 states that when privately-owned motor vehicles are used for official business travel, the traveler may claim reimbursement at the rate per mile established by the Chief Fiscal Officer (CFO) of the State in effect during the time the travel occurred. On January 15, 2014, the Commission authorized an increase in the mileage reimbursement rate for Agency employees from \$0.42 per mile to \$0.56 per mile. During review of travel reimbursements, we selected five marketing sales representatives for testing. For those five employees, the increased rate in mileage reimbursement for the period of January 15 - June 27, 2014, resulted in a total additional cost to the Agency of \$6,535.

We recommend the Agency seek an Attorney General's opinion as to whether the Agency is exempt from the reimbursement rate per mile established by the CFO of the State. If the Attorney General opines that travel regulation R1-19-4-903 applies to the Agency, we recommend the Agency reduce the mileage reimbursement rate to \$0.42 per mile, as established by the CFO of the State. We further recommend the Agency seek reimbursement from all affected employees for all amounts reimbursed above the authorized rate.

Management personnel responded: The ALC will review the finding and determine whether to change policy to conform with the finding or to seek an Attorney General's opinion.

### ***Agency's Response to Findings***

The Agency's response to the findings identified in our audit are described above. The Agency's response was not subjected to the procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF  
Legislative Auditor

Little Rock, Arkansas  
November 18, 2014