

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, August 20, 2014

10:00 a.m.

124 West Capitol Avenue, Third Floor
Little Rock, Arkansas

Call to Order

Chairman Campbell called the meeting to order. Commissioners Baldrige, Hammons, Frazier, Engstrom, Streett and Scott were also present. Staff members present included Director Bishop Woosley, Matt Brown, Jean Block, Jerry Fetzer, Robert Stebbins, Joanna Buntin, Angela Meredith, Patti Vick, Maria Craig, Terry Williams, Valerie Basham, and Jeremy Smith.

Approval of Minutes

The first order of business was the approval of the minutes of the meetings held on June 25 and June 27, 2014. Commissioner Scott made a motion to accept the minutes of the meeting held on June 25, 2014, Commissioner Frazier seconded the motion and the motion passed unanimously. Commissioner Baldrige made a motion to accept the minutes of the meeting held on June 27, 2014, Commissioner Hammons seconded the motion, and the motion passed unanimously.

Arkansas Academic Challenge Scholarship Update

Arkansas Department of Higher Education Director Shane Broadway reported that there are approximately 34,700 Arkansas Academic Challenge Scholarship awardees for this coming academic year, and that ADHE projects that \$103 Million will be spent this year to fund the scholarships. He provided a preliminary FY2015 report (in file) which outlined Academic Challenge traditional student (public school) applications by county.

Chairman Campbell asked Mr. Broadway if there was some way for their administrative expenses to be cut, especially since the Lottery funds that expense. Mr. Broadway said that the General Assembly had been asked to take the money out of General Revenue, but it was not funded. He added that the costs are trending lower, with the current fiscal year expenses going down from \$794,000 to \$751,000. Commissioner Scott asked Mr. Broadway if he was very concerned about the Lottery's lower projected revenues for FY 2015. Mr. Broadway said that net proceeds would have to dip below \$75 Million. He said that all scholarships, including those for nontraditional students, are fully funded.

Chairman Campbell thanked Mr. Broadway for his report and he **asked that ADHE get together with the ALC Education Committee to brainstorm about ways to lower the [scholarship] administrative expenses.**

Report from the Internal Auditor

Mr. Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown said that five audits had been completed and final reports issued (in file). Observations were noted for each, with follow-up audit procedures necessary for the Online Games and Gaming System Audit and for the Payroll and Leave Audit. The FY 2015 Audit Plan includes follow-up audit procedures for the Human Resources Processes Follow-Up Procedures Audit.

Report from the Director

Director Woosley was recognized to give his report (in file). Online ticket sales for July 2014 were down considerably from July 2013, mostly because there had been a large Powerball jackpot at about this time last year. In reviewing July 2014 Actual vs. Budget, the promising news was that instant ticket sales were just .5% less than anticipated. Online ticket sales were 18.9% less than budgeted, mostly because there was a steady run of smaller jackpots for the online games, negatively impacting sales. However, net proceeds were \$390,572 more than expected, and the ADHE transfer analysis showed net proceeds \$615,936 more than budgeted for the month.

Director Woosley gave a brief breakdown of product sales. He pointed out that the sales of \$20 instant tickets were 10.21% lower this year, adding that the Lottery was slowly reducing ticket inventory for that price range. He said that there was a corresponding rise in the sales of \$5 and \$10 instant tickets, 3.83% and 12.95% respectively. He said that was good news because the \$5 and \$10 tickets were more profitable to the Lottery.

He reported that Powerball is in close to crisis mode and the MUSL Marketing and Development Committee plans on meeting in early September to consider changes. They will bring ideas to the NASPL 2014 Conference, which will be held in late September. He said that there is great discontent with the game and a great deal of concern because the lower sales are directly affecting lotteries throughout the U.S. ALC was down about \$12 Million in Powerball sales this year, which translated to lowered net proceeds of about \$5.5 Million.

Director Woosley reminded the Commission that there was a clause in the (amended) contract with SGI which gave ALC the right to obtain printing services from any third party for a game if SGI did not have the printing capacity or they did not have the ability to obtain the rights to the third party's intellectual property. He recently asked two other instant ticket vendors, Pollard Banknote and GTech, to meet with ALC to pitch new games under the provisions of the contract. He said his reasoning to extend the invitations was because (a) competition is good and (b) ALC would have access to three different catalogs with a greater selection of games from which to choose. He said that they were determining pricing and ALC is considering the feasibility [of choosing to use the instant ticket printing services of third party vendors]. There would be further negotiation, and if the terms were favorable, he would bring proposals before the Commission for consideration.

Consideration of FY 2015 Revised Budget

Director Woosley stated that after the budget had been reviewed by the LOC on June 30, a Special Legislative Session was called. During the Special Session, the State Legislature temporarily barred the Lottery from deploying monitor games until March 2015 at the earliest. The Director said that the other budgetary concern was that there have been several changes to the games ALC will be joining this fiscal year [Lucky for Life and Monopoly Millionaires' Club], which makes it difficult to predict how the games will affect revenue. ALC Management made the decision to remove from the budget anything related to monitor games, including revenue, sales and commissions. The result was that online revenues were decreased by \$12.5 Million, expenses decreased by \$8.1 Million, Retailer Commissions decreased by around \$700,000, gaming contract costs decreased by about \$600,000, total expenses reduced by \$9.4 Million, unclaimed prizes decreased by \$45,000, and income before transfers decreased by about \$3 Million. The revised FY2015 budget is now \$78.2 Million, down from \$81.2 Million. He added that he hoped that the Lottery would perform better [than \$78.2 Million], but that management wanted to be very conservative because of the uncertainty [regarding the new games and how they affect revenue]. **Commissioner Frazier made a motion to accept the revised FY 2015 budget and to forward it to the LOC for review. Commissioner Engstrom seconded the motion and the motion passed unanimously.**

Advertising Presentation

Joanna Bunten, ALC Advertising and Marketing Director, welcomed staff members from Mangan Holcomb Partners and The Mitchell Communications Group, the two advertising agencies recently awarded Supplemental Advertising, Marketing and Media contracts. She said they had been selected to work with ALC on the development of a new branding campaign, to help create a campaign for ALC's 5th anniversary, and to execute strategies for underperforming markets, with emphasis on NW and NE Arkansas. She introduced Chip Culpepper, Chief Creative Officer for Mangan Holcomb and Brett Carrey, General Manager/Senior Vice President of the Mitchell Communications Group. Mr. Culpepper gave a presentation (in file) and overview on creative and media strategy for September and October gaming and beneficiary ads. Mr. Carrey gave an overview of the new University program.

Reports from ALC Committees

Audit and Legal Committee: Commissioner Streett stated that this morning (August 20) the Audit and Legal Committee approved a motion that ALC consider the possibility of closing the three regional claim centers and develop a plan for withdrawing from them. Commissioner Scott made a **substitute motion that the ALC close the three regional claim centers when their leases expire**. Commissioner Baldrige seconded the substitute motion. Commissioners Scott, Engstrom, Baldrige, Streett, and Campbell voted in favor of the substitute motion, and Commissioners Frazier and Hammons voted against the motion. **The substitute motion that ALC close the three regional claim centers when their leases expire passed by a vote of five to two.**

Commissioner Streett said that the Committee had also voted to research the feasibility of a prize and marketing delivery platform/promotional vehicle, which he now brought before the Commission for consideration. Commissioner Scott seconded the motion. **The motion that ALC research the feasibility of a prize and marketing delivery platform/promotional vehicle passed without dissent.**

Commissioner Streett reported that on July 16, the Audit & Legal Committee voted to approve in-house draw game audits, which would be performed by the ALC Internal Audit Division. He made a motion on behalf of the committee for ALC to adopt the committee's recommendation and Commissioner Hammons seconded the motion. **The motion to approve in-house draw game audits passed unanimously.** Internal Auditor Brown advised the Commission that details of how to proceed with the audits were still being worked out and some items might have to go through the Personnel and/or the Audit & Legal Committees once the particulars were known.

Personnel Committee: Commissioner Scott made a motion on behalf of the Personnel Committee that ALC management notify the Committee prior to filling any vacant position, including a time frame for filling the position. Commissioner Hammons asked if the intent of the motion was that ALC management consult with the Personnel Committee, or to consult with individual members of the Personnel Committee, and if any further action was required after the notification. It was clarified that the intent was that all Personnel Committee members should be *notified* of any vacant positions, but that there was no further action required, unless a committee member had a concern. Commissioner Engstrom seconded the motion. **The motion that ALC management notify members of the Personnel Committee prior to filling any vacant position, including a time frame for filling the position, passed unanimously.**

Vendor Committee: Nothing to report.

Retail and Marketing Committee: Nothing to report.

Higher Education Committee: Commissioner Frazier reported that the annual donations from ALC vendors Intralot and Scientific Games to Upward Bound recipients would be presented during the TRIO Achievers Banquet being held at the Little Rock Marriott Hotel on October 5.

Other Business

Commissioner Frazier stated that Director Woosley had proposed that Commission meetings be held every other month, and he asked that the subject be discussed at the next meeting. He added that the subject had come up before but had not yet been resolved.

Meeting Date

Chairman Campbell announced the Commission meeting dates for the next three months: September 17, October 15, and November 19. He added that because the LOC was meeting in September and possibly October, with those meeting dates not yet known, the ALC meeting dates were subject to change.

There being no further business, the meeting was adjourned.

**Arkansas Lottery Commission
Monthly Internal Audit Update
October 15, 2014**

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**Arkansas Lottery Commission
FY 2015 Internal Audit Plan Status Report
October 15, 2014**

Planned Audits or Reviews

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
3	Audit	Banking Contract Compliance	Compliance with Banking Contracts (Bank of the Ozarks).	Complete	Status Update: Report issued September 10, 2014. No observations or recommendations were included in the report.	-
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.	Scheduled		100
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.	Scheduled		100
11	Review	Instant Ticket Quality	Review of independent quality control reports for instant tickets.	Complete	Status Update: Report issued August 29, 2014. No observations or recommendations were included in the report.	-
12	Audit	Lottery Facilities Security & Controls	Controls and procedures that ensure ALC buildings and facilities are physically secure.	In Progress	Status Update: Fieldwork began the week of September 1, 2014 and is ongoing.	40
18	Audit	Background Checks	Controls and procedures surrounding the background check process.	Complete	Status Update: Report issued August 25, 2014. See Page 6 for additional information.	-
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
21	Audit	Sales Force Processes	Controls and procedures surrounding sales force activities and the reporting provided to Management and the Arkansas Lottery Commission relative to sales data.	Scheduled		140

**Arkansas Lottery Commission
FY 2015 Internal Audit Plan Status Report
October 15, 2014**

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
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.	Scheduled		150
27	Audit	Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	Scheduled		80
31	Audit	Unclaimed Prize Fund	Controls and procedures surrounding the unclaimed prize fund.	Substantially Complete	Status Update: Fieldwork began the week of September 15, 2014 and final wrap-up and reporting remain.	10
40	Audit	IT Help Desk & Desktop Support	Controls and processes surrounding IT help desk tickets and desktop support including proper issue management, response times, impact to interruption of business operations, and avoidance/response to cyber attacks.	Complete	Status Update: Report issued September 16, 2014. No observations or recommendations were included in the report.	-
41	Audit	Lottery Vehicles	Controls and procedures surrounding lottery fleet management and maintenance.	Scheduled		125
42	Audit	Building & Facility Maintenance	Controls and procedures surrounding building and facility maintenance, including compliance with applicable laws and regulations.	In Progress	Status Update: Fieldwork began the week of October 6, 2014 and is ongoing.	80
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.	Scheduled		120

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

1,510

**Arkansas Lottery Commission
FY 2015 Internal Audit Plan Status Report
October 15, 2014**

Follow-Up Audit Projects Resulting from Previous Audits⁴

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
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
30F	Audit Follow-Up	Federal & State Tax Withholding & Reporting Follow-Up Procedures	Follow-Up on Observations from FY 2014 Process Audit.	Complete	Status Update: Report issued September 9, 2014. See Page 7 for additional information.	-
36AF	Audit Follow-Up	Financial Accounting & CAFR Follow-Up Procedures	Follow-Up on Observations from FY 2013 Process Audit.	Scheduled		40
40AF	Audit Follow-Up	Transparency Reporting & Compliance Follow-Up Procedures	Follow-Up on Observations from FY 2014 Process Audit.	Substantially Complete	Status Update: Fieldwork began the week of September 15, 2014 and final wrap-up and reporting remain.	10

Consulting & Other Tracked Projects⁵

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
43	Consulting	Facilitation/Review of Risk Assessment coordinated by DFA (Biennially)	Risk Assessment requested by DFA.	Scheduled		30
44	Consulting	Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.	Complete	Status Update: Report issued October 13, 2014. No observations or recommendations were included in the report.	-
45	Consulting	Financial Statements & CAFR Review (Annually)	Review of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.	In Progress	Status Update: Fieldwork is ongoing.	30
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.	Scheduled		140

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

2,024

**Arkansas Lottery Commission
FY 2015 Internal Audit Plan Status Report
October 15, 2014**

Notes

¹Project Number based on number of all projects within the project universe. "F" indicates follow-up procedures. Follow-up procedures for audits in a given fiscal year may be incorporated into the following fiscal year's audit plan depending on several factors, including the timing of any Management remediation activities and available Internal Audit resources. See Page 8 for complete, numbered project universe.

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

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

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

⁵Consulting 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
Background Checks Audit
FY 2015
October 15, 2014**

General Information

- The audit centered on controls, processes, and procedures associated with conducting background checks required by law for prospective ALC employees.
- Fieldwork included review of documentation and information generated during all years of the ALC's existence.

Observation

- Incomplete documentation regarding background checks for two current ALC employees, hired in 2009.
 - Arkansas Code Annotated (ACA) § 23-115-303 requires the ALC to perform background checks of prospective employees and prohibits the ALC from employing anyone who has been convicted of a felony or gambling offense at the state or federal level, been convicted of a crime involving moral turpitude, or entered into a plea agreement to avoid felony prosecution.
 - Without complete retention of documents associated with the background check process, the ALC cannot demonstrate it has complied with ACA § 23-115-303 (f) (1) through (3).
 - Internal Audit (IA) recommended that Management complete the actions necessary to ensure that complete documentation regarding background checks for the employees noted be completed and that such documentation is retained in applicable employee files going forward.
 - Prior to completion of the audit, Management performed actions necessary to ensure complete documentation was placed in the employee files noted, and IA validated that such documentation was retained within the applicable employee background check files that demonstrates the ALC's compliance with applicable statute. Further, Management stated its agreement with IA's recommendation.
 - Additional follow-up is necessary in order to consider the observation cleared.

Arkansas Lottery Commission
Federal & State Tax Withholding & Reporting Follow-Up Procedures
FY 2015
October 15, 2014

General Information

- Follow-Up Procedures centered on Management's implementation of controls, procedures, and / or processes to address the observations noted in the initial audit of the Federal & State Tax Withholding & Reporting process.
- Fieldwork included review of documentation and information generated through August 26, 2014.
- Internal Audit (IA) considers observations from the initial audit regarding submission of Form 1099 for retailers that should have received them for tax years 2012 and prior and addressing the IRS penalties from 2010 to be cleared, based on Management's action since the initial audit. IA will continue follow-up work relative to the status of the IRS penalties noted since the IRS has notified it needs additional time to respond to the ALC's request for waiver of a portion of the penalty assessed and paid.

Observation

- One retailer that received a Form 1099 for 2013 that overstated the retailers' earnings of commissions from the ALC and six retailers that did not receive a Form 1099 for 2013 that should have.
 - Conditions noted resulted from inaccurate or incomplete retailer records.
 - Based on the conditions noted, the ALC could be subject to penalties from the IRS for failure to file or failure to include all information required in an information return (in this case, Form 1099).
 - The procedures performed by IA were limited to the current data within ALC systems at the time of testing, and as such, IA cannot provide assurance as to whether other inaccuracies in the data may exist that would impact past or future tax reporting requirements.
 - IA affirmed its recommended action from the initial audit - that the Licensing Section begins requiring prospective retailers to provide documentation of legal entity type upon application or next renewal for a license from the ALC – as a result of the follow-up procedures. Further, IA recommended that the Treasury Division issue Form 1099 to those retailers impacted and file such forms with the IRS for all years noted in the follow-up work.
 - Management has responded stating that the Licensing Section (Licensing) will begin performing a check using the Arkansas Secretary of State's website at the time of initial application and at renewal to affirm prospective or current retailers' legal entity type, in order to assure that the ALC's retailer records are accurate for tax reporting purposes. Should Licensing be unable to affirm such information with the Secretary of State, the prospective or current retailer will be contacted and required to provide information that demonstrates legal entity type before a new or renewal license will be provided to them by the ALC. Further, Management responded stating that the Treasury Division will issue new or revised 1099s to the retailers impacted and will amend applicable filings with the IRS.
 - 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
Legal - Block						
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			
Gaming & Product Development - Smith						
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
Security & Licensing - Backes						
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
Human Resources - Basham						
18 Background Checks			X			X
19 Human Resource Processes (Hiring, Benefits, Terminations, etc.)		X	f			X
Commission & Legislative Affairs - Ralston						
20 Public & Legislative Relations			X			
Sales - Stebbins						
21 Sales Force Processes			X			X
Marketing - Bunten						
22 Advertising & Marketing (excl Contract Compliance)			X			X
Treasury - Fetzer/Parrish						
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
Financial Control - Fetzer/Williams						
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	
Information Technology - Fetzer						
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
Internal Operations - Fetzer						
41 Lottery Vehicles			X			X
42 Building & Facility Maintenance			X			X
Recurring / Other Projects						
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.



Report from the Director

October 15, 2014

Beneficiary Campaign



Pre-game interview with Scott Inman (KATV) and Quinn Grovey (Razorback Sports Network)



Mason Hatfield, a student at UA/Walton College of Business, and an Arkansas Academic Challenge Scholarship recipient, participated in the on-field presentation.

Beneficiary Campaign



University of Arkansas On-field Presentation
October 11, 2014

Upward Bound



On October 6 at the Little Rock Marriott/Statehouse Convention Center, ALC vendors Intralot and Scientific Games presented a \$40,000 gift to be shared by Arkansas Upward Bound programs to improve technology-based education for Upward Bound students. This is the second year Intralot and Scientific Games have given this gift to Arkansas students.

Winners



Susan Gray of Bryant won \$1,000,000 playing a \$20 Platinum Payout instant ticket purchased at ASL retailer I-30 Liquor, 10206 Interstate 30, in Little Rock. She first told her husband, and said she plans to pay bills and save the winnings for retirement.

Winners

El Dorado -- "I'm a millionaire," says Shepeka Floyd, winner.

25-year-old Shepeka Floyd said she always does the \$20 scratch off's, but she got lucky this time.

"I had bought the ticket, and then I had scanned it, and then it said see *clerk*. Then I gave it to the clerk, and when she scanned it, a ticket came out, and it said *sign immediately*. Me and her both started jumping and screaming, and jumping and screaming, and hollering and screaming. It was crazy, it was crazy," she said.

Floyd won the money playing a \$20 \$1,000,000 *Riches* instant ticket which she purchased from Rainbow Food Mart #4, 2110 Junction City Highway, El Dorado.

She said she already has plans for her million dollar earnings.

"First I'm going to get me a house, then after that, I'm going to give my momma some money, and after that just sit on it."

ARKANSAS SCHOLARSHIP LOTTERY

\$20

\$1,000,000

Riches

WIN UP TO \$1 MILLION!

GAME 1: Get 3 like symbols in any one GAME, win PRIZE shown for that GAME. Get 3 "WIN" symbols in any one GAME, win DOUBLE the PRIZE shown!

GAME 1 MELON MELON COAT \$10,000 TEN THO	GAME 4 PIGBNK PIGBNK APPLE \$5,000 FIV THO
GAME 2 COINS GRAPES PTGD \$100 ONE HUN	GAME 5 SHOE SHOE RAINB \$500 FIV HUN
GAME 3 STAR SVN CLOVER \$50.00 FTY DOL	GAME 6 HOUSE RING NKLACE \$30.00 TRY DOL

GAME 2: Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Get a "WIN" symbol, win that PRIZE automatically.

WINNING NUMBERS

28 TENTH	23 THIR	14 FOURTH	11 ELEVEN	20 TWENTY	30 THIRTY
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YOUR NUMBERS

10 TEN \$20.00 TWO DOL	26 TWO SIX \$1,000 ONE THO	18 EIGHTEEN \$500 FIV HUN	25 TWO FIVE \$200 TWO HUN	27 TWO SEVEN \$100,000 ONE HUN THO
13 THIRTEEN \$1,000 ONE THO	2 TWO \$100 ONE HUN	15 FIFTEEN \$50.00 FTY DOL	22 TWENTY TWO \$10.00 TEN DOL	24 TWENTY FOUR \$30.00 TRY DOL
5 FIVE \$100,000 ONE HUN THO	21 TWO ONE \$500 FIV HUN	16 SIXTEEN \$30.00 TRY DOL	6 SIX \$50.00 FTY DOL	17 SEVENTEEN \$20.00 TWO DOL
8 EIGHT \$200 TWO HUN	3 THREE \$10.00 TEN DOL	12 TWELVE \$1,000 ONE THO	4 FOUR \$100 ONE HUN	30 THIRTY \$1 MIL ONE MIL

123456789012 000

TICKETS MAY CONTINUE TO BE SOLD AFTER ALL TOP PRIZES HAVE BEEN CLAIMED.

Winners



Richard and Roy Lamb of Sheridan purchased a \$5 “\$100 Grand” instant ticket at the Winner Circle 12 in Sheridan and won \$100 grand! They told us they were going to use their winnings to pay off a few bills.



September 28, 2009 – September 28, 2014

- **\$457,510,855 in net proceeds, providing scholarships to over 150,000 Arkansas residents pursuing higher education at Arkansas's 47 public and private nonprofit colleges and universities**
- **\$2.252 BILLION in net ticket sales**
- **\$1.414 BILLION in prizes paid**
- **Close to \$1 MILLION in unpaid personal income tax and unpaid child support returned to Arkansas taxpayers**
- **\$9.5 MILLION in Arkansas state income tax and \$35 MILLION in Federal income tax paid on Lottery winnings**
- **\$125 MILLION in ticket sales and cashing commissions paid to 1,872 licensed Lottery Retailers**

Comparative Income Statements

For September 2014 and September 2013

GAAP Basis Income <u>Statement</u>	<u>September 2014</u>	<u>September 2013</u>	Favorable/ (Unfavorable)	Percentage <u>Variance</u>
Revenues				
Instant Tickets	\$ 24,766,827	\$ 23,218,212	\$ 1,548,615	6.7%
Online Tickets	5,896,543	8,580,502	(2,683,959)	-31.3%
Retailer App / Fidelity and Other	47,123	58,852	(11,729)	-19.9%
Total Revenues	30,710,493	31,857,566	(1,147,073)	-3.6%
Operating Expense				
Instant Game Prizes	18,110,764	16,179,968	(1,930,796)	-11.9%
On-Line Game Prizes	3,133,069	4,578,079	1,445,010	31.6%
Retailer Commissions	1,734,484	1,766,614	32,130	1.8%
Gaming Contract Costs	1,569,871	1,553,612	(16,259)	-1.0%
Marketing and Advertising	568,709	374,934	(193,775)	-51.7%
General and Administrative	621,281	471,855	(149,426)	-31.7%
Other Agencies Services	76,480	91,233	14,753	16.2%
Total Operating Expenses	25,814,658	25,016,295	(798,363)	-3.2%
Operating Income	4,895,835	6,841,271	(1,945,436)	-28.4%
Interest Income	20,827	15,109	5,718	37.8%
Other Non Operating Income	-	-	-	-
Income Before Transfers	\$ 4,916,662	\$ 6,856,380	\$ (1,939,718)	-28.3%
Net Proceeds	\$ 4,317,227	\$ 6,023,766	\$ (1,706,539)	-28.3%

Note – Net Proceeds does not includes unclaimed prizes.

Comparative Income Statements

For September 2014 Actual Versus Budget

GAAP Basis Income <u>Statement</u>	September 2014 <u>Actual</u>	September 2014 <u>Budget</u>	Favorable/ <u>(Unfavorable)</u>	Percentage <u>Variance</u>
Revenues				
Instant Tickets	\$ 24,766,827	\$ 25,900,070	\$ (1,133,243)	-4.4%
Online Tickets	5,896,543	6,776,354	(879,811)	-13.0%
Retailer App / Fidelity and Other	47,123	47,900	(777)	-1.6%
Total Revenues	30,710,493	32,724,324	(2,013,831)	-6.2%
Operating Expense				
Instant Game Prizes	18,110,764	18,414,231	303,467	1.6%
On-Line Game Prizes	3,133,069	3,581,631	448,562	12.5%
Retailer Commissions	1,734,484	1,829,885	95,401	5.2%
Gaming Contract Costs	1,569,871	1,609,560	39,689	2.5%
Marketing and Advertising	568,709	416,667	(152,042)	-36.5%
General and Administrative	621,281	662,529	41,248	6.2%
Other Agencies Services	76,480	66,667	(9,813)	-14.7%
Total Operating Expenses	25,814,658	26,581,170	766,512	2.9%
Operating Income	4,895,835	6,143,154	(1,247,319)	-20.3%
Interest Income	20,827	11,666	9,161	78.5%
Other Non Operating Income	-	-	-	-
Income Before Transfers	\$ 4,916,662	\$ 6,154,820	\$ (1,238,158)	-20.1%
Net Proceeds	\$ 4,317,227	\$ 5,679,822	\$ (1,362,595)	-24.0%

Note – Net Proceeds does not includes unclaimed prizes.

Comparative Income Statements

YTD September 30, 2014 Compared to YTD September 30, 2013

GAAP Basis Income <u>Statement</u>	Actual <u>YTD 9/30/14</u>	Actual <u>YTD 9/30/13</u>	Favorable/ <u>Unfavorable</u>	Percentage <u>Variance</u>
Revenues				
Instant Tickets	\$ 76,596,087	\$ 75,503,897	\$ 1,092,190	1.4%
Online Tickets	16,453,640	23,755,724	(7,302,084)	-30.7%
Retailer App / Fidelity and Other	157,247	148,043	9,204	6.2%
Total Revenues	93,206,974	99,407,664	(6,200,690)	-6.2%
Operating Expense				
Instant Game Prizes	54,787,315	53,323,679	(1,463,636)	-2.7%
On-Line Game Prizes	8,661,824	12,457,447	3,795,623	30.5%
Retailer Commissions	5,241,771	5,536,183	294,412	5.3%
Gaming Contract Costs	4,787,295	4,820,862	33,567	0.7%
Marketing and Advertising	790,638	849,584	58,946	6.9%
General and Administrative	1,810,546	1,736,516	(74,030)	-4.3%
Other Agencies Services	224,480	273,699	49,219	18.0%
Total Operating Expenses	76,303,869	78,997,970	2,694,101	3.4%
Operating Income	16,903,105	20,409,694	(3,506,589)	-17.2%
Interest Income	74,853	79,131	(4,278)	-5.4%
Other Non Operating Income	-	-	-	-
Income Before Transfers	\$ 16,977,958	\$ 20,488,825	\$ (3,510,867)	-17.1%
Net Proceeds	\$ 15,542,641	\$ 17,316,967	\$ (1,774,326)	-10.2%

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					
November					
December					
January, 2015					
February					
March					
April					
May					
June					
Totals	\$ 15,542,641	\$ 1,320,731	\$ 18,312,455		

Pollard Banknote Printing vs. SGI

Printing costs and fees for comparable games and inventory levels:

1. **Scratch FX** possible price points/quantities:

- \$5 – 1,920,000 – **\$71.92 per 1,000** tickets equals **\$138,086.40 (SGI - \$188,512)**
- \$10 – 1,440,000 – **\$98.11 per 1,000** tickets equals **\$141,278.40 (SGI - \$243,768)**

2. **Playbook** price point and quantity:

- \$20 – 1,440,000 – **\$418.00 per 1,000** tickets = **\$601,920 + \$41,250* = \$643,170 (SGI - \$448,536)**
- \$20 - 2,100,000 – **\$396.00 per 1,000** tickets = **\$831,600 + \$41,250* = \$872,850 (SGI - \$655,240)**

*We would also need to purchase dispensers with locking bases for a total of about **\$41,250.**

GTECH BEJEWELED™

GTECH offers for the BEJEWELED™ property:



- Price Point: \$3
- Quantity: 1,920,000 (variance of minus 2%)
- Projected Launch: April 7, 2014

Original offer: License Fee: 2% of Potential Sales

Updated offer: License Fee: 1% of Actual Sales

Proposed Play It Again® Program Change



- **New multi-state game coming soon!**
- **\$5 terminal-based game is designed to create many \$1 million winners and will feature a top prize of \$15 to \$25 million. Excitement will build each week as players track the number of \$1 million Millionaires' Club Prizes available to be won when the top prize is hit.**
- **Players will also have the chance to enter tickets for a chance to appear on a nationally televised game show where additional prizes may be won (show is slated to premier early next year.**
- **First ticket sales will begin October 19, 2014.**

Lucky for LIFE



- The first drawing for this NEW \$2 multi-state game will be on Thursday, January 29, 2015.
- First ever “Set for Life” prize in Arkansas. Players have a chance to win in *Lucky for LIFE* twice each week.
- Cash prizes start with just matching the Lucky Ball® drawn in the game all the way to a top prize of \$1,000 a Day for LIFE (or \$6,300,000 Cash).
- The Second Level Prize for correctly matching just the five white balls but not the Lucky Ball® is \$25,000 a YEAR for Life (or \$422,000 Cash).
- There are 10 prize levels in total, with prizes ranging from \$4 for matching just the Lucky Ball® all the way up to \$1,000 a Day for Life (Top Prize).

Active Retailers

1,870 active Retailers as of September 30, 2014

(No change. There were 1,870 Retailers on August 31)



Ticket Vending Machines

75 TVMs Currently Deployed



INSTANT GAME LAUNCHES

October

(\$1) Spooky Cash



(\$2) Double Match



(\$5) Win It All



(\$10) Super Jumbo Bucks



(\$1) Great 8's



November

(\$1) Happy Holidays (4 scenes)



(\$2) Winter Wishes



(\$2) Wild Doubler



(\$5) Winner Green



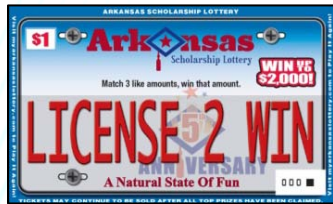
(\$10) \$10,000 Pay Day



INSTANT GAME LAUNCHES

December

(\$1) License 2 Win



(\$2) Peng-Win!
(5 continuous scenes)



(\$3) Lucky 777



(\$5) \$100,000 Taxes Paid



January

(\$1) \$50 Frenzy



(\$2) \$200 Frenzy



(\$5) \$500 Frenzy



(\$20) 5th Anniversary Millions



September Instant Games TV Commercial

October Instant Games TV Commercial

October-January Beneficiary TV Commercial

University Scoreboard Commercials



Jade Collins
Sophomore
Strategic
Communications



Arkansas Scholarship Lottery Betting on Graduates

by Michelle Corbet on Monday, Oct. 6, 2014 12:00 am



Nabil Tower (center), an Academic Challenge Scholarship recipient who attends the University of Arkansas, participated in an on-field Arkansas Scholarship Lottery presentation with (from left to right) Daniel Rugh, vice president for student affairs, Thomas Smith, dean of College of Education and Health Professions and Stanop Wooley, director of the Arkansas Scholarship Lottery, during a football game at UA on Sept. 20. | (Photo courtesy of Arkansas Scholarship Lottery.)

The direct link between college scholarships and gambling was something Arkansas' first state lottery commissioners weren't eager to point out.

But a new class of commissioners is hoping to remind Arkansans of that link each time they attend a football game.

This fall marks the first time the Arkansas Scholarship Lottery has advertised with Arkansas colleges and universities, creating a marketing campaign that thanks the lottery for sending Arkansas kids to college.

Since ticket sales began on Sept. 28, 2009, the Arkansas Lottery Commission has had a self-imposed ban on advertising with universities. But as early commissioners have been replaced, new commissioners began to question the ban. This spring the commission decided the lottery was mature enough for campus life.

The Lottery Commission awarded Mitchell Communications Group of Fayetteville and Mangan Holcomb Partners of Little Rock an advertising budget of \$5 million for the year — a half-million boost from the \$4.5 million for each of the past four years. Of that, about \$300,000 is being spent on the university promotions. Hunter Gray Associates Inc. of Little Rock was the other finalist for the 2015 advertising contract.

The two advertising agencies are working in tandem to promote the lottery's five-year anniversary. A key component of the campaign is to thank lottery beneficiaries, including lottery winners and scholarship recipients.

Arkansas Business



GO LIONS!

TOUCHDOWN FOR EDUCATION!



In just five years, the Arkansas Scholarship Lottery has generated over \$450 million for scholarships, helping more than 150,000 Arkansas students attend 47 different colleges and universities across the state.

myarkansaslottery.com

