MINUTES
ARKANSAS LOTTERY COMMISSION

Monday, January 23, 2012
10:00 a.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order, by conference call. In attendance were Commissioners Frazier and by conference call Commissioners Malone, Campbell, Engstrom, Faris, Hammons and Shipp. The ASL was represented by Julie Baldridge, Bishop Woosley, Patricia Vick, Lance Huey, Valerie Basham, and Jeremy Smith.

Chairman Lamberth stated that the sole agenda item was to consider an amendment to the Employee Manual to add an Introductory Period. Chairman Lamberth recognized Interim Director Baldridge to read the proposed motion for the amendment, which read as follows:

> *I move to add the following language in the appropriate section of the ALC Manual:*
>
> *All new (hired or rehired) employees are placed on a six (6) month introductory period and while on this status do not have access to the agency's grievance procedures.*
>
> *Employees promoted, demoted, or moved laterally to new positions within the agency will be placed on a three (3) month introductory period with an option of a three (3) month extension at the discretion of the supervisory.*

Commissioner Engstrom moved to accept the motion as written, Commissioner Faris seconded the motion, and by roll call count, the motion passed.

There being no further business, the meeting was adjourned.

MINUTES
ARKANSAS LOTTERY COMMISSION
Monday, November 21, 2011
1:00 P.M.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Dianne Lamberth called the meeting to order. Commissioners Ben Pickard, Mike Malone, George Hammons, Smokey Campbell, Bruce Engstrom and Raymond Frazier were also present. Commissioner Steve Faris was present via teleconference. Staff members present included Interim Director Julie Baldridge, Internal Auditor Michael Hyde, Bishop Woosley, Lance Huey, Jerold Fetzer, Patricia Vick, Susan Chamberlain, Robert Stebbins, Mark Hearn, and Lisa Tater. Representing ADHE were Interim Director Shane Broadway and Associate Director Harold Criswell.

The first order of business was consideration of the draft minutes of the October 17, 2011, meeting. Commissioner Malone requested that the minutes reflect that both he and Commissioner Shipp attended the ALC Retreat on October 16 and October 17, 2011. By a motion of Commissioner Frazier to approve the minutes as amended and seconded by Commissioner Hammons, the minutes were approved without dissent.

The next item on the Agenda, Report from Arkansas Department of Higher Education, was postponed awaiting arrival of ADHE Interim Director Broadway. Chairman Lamberth stated that Mr. Broadway would be able to give his report as soon as he arrived.

Chairman Lamberth proceeded to the next agenda item, the consideration of Retailer Advisory Board appointments. The following five (5) members, whose terms were due to expire on December 31, 2011, requested to be reappointed to the Board: Richard King, EZ Mart; Steve Lightle, B&B Oil Company; Felix Oliu, MurphyUSA; Harold Tunious, D&J Mini-Mart; and Bill Waite, Dickson Street Liquor. Commissioner Campbell made a motion to confirm the Chair's reappointments, which was seconded by Commissioner Pickard and the motion passed unanimously. Commissioner Campbell will be coordinating a meeting between the Commissioners and the Retail Advisory Board members following the 2012 Fiscal Session.

Chairman Lamberth called on Interim Director Baldridge to give her report. Ms. Baldridge said that she was working with Intralot to secure their payment for next year's vendor audit and felt confident that all concerned would find savings for the lottery.

Commissioner Engstrom asked who would make the selection of the independent audit firm. Internal Auditor Hyde responded that Intralot was amenable to the Lottery

Commission, as represented by the Arkansas Legislative Audit, to either make the selection or opt to have Legislative Audit perform the audit. Mr. Hyde stated that it would be a decision for Legislative Audit to make. Discussion followed. He added that the vendor audit was on the agenda of the upcoming ALC Audit and Legal Committee meeting and the issue would be addressed at that time to determine the best approach to the issue.

Chairman Lamberth welcomed ADHE Interim Director Broadway, who distributed "Selected Academic Year 2012" preliminary data (included in record) and answered questions from the commissioners regarding the scholarship application process. He stated that ADHE is presently working on a comparison of the students who retain their scholarships versus those who do not retain the scholarship. He added that ADHE is also currently looking at net proceeds and the number of students, and will work with the General Assembly during the 2012 Fiscal Session.

Commissioner Campbell asked Mr. Broadway if [ADHE] was ahead [of the process] this year. Interim Director Broadway replied that they were processing approximately the same number of applicants as the previous year. He added that the process that continued to take the longest amount of time was the new non-traditional applicants who were deemed eligible but were not funded..

Commissioner Faris asked Mr. Broadway if ADHE was currently studying the numbers, i.e., reviewing the amounts [of scholarships] awarded. Mr. Broadway responded that it would be up to the General Assembly to broach the subject. He added that ADHE was putting together a flow chart now that they had final numbers. They would run those numbers against several different scenarios and bounce those against net proceeds. Mr. Broadway said they would have the numbers to give to the general assembly and let them make the decision, but that he did not personally have a recommendation.

Ms. Baldridge resumed her report, thanking Mr. Broadway for his presentation. She asked Marketing Director Joanna Bunten to stand and be recognized for the hard work she and her staff, along with Controller Terry Williams and Internal Auditor Hyde, put in to the first ALC Comprehensive Annual Financial Report. Ms. Baldridge emphasized that the layout, design, and all content except the financial reports in the final product was not a part of the Crowe Horwath expenditure, but the result of the ALC staff's hard work. She went on to thank Ms. Bunten and Commissioner Engstrom, who found errors in the report and were able to correct them before the document went to press. Director Baldridge also thanked the Arkansas colleges and universities who responded quickly to provide photographs of students for use in the CAFR.

Mr. Baldridge noted that Robert Stebbins, ASL Director of Sales, was in the room, and introduced ASL's two regional sales managers, Mark Hearn and Lisa Tater. She also introduced to the Commissioners ASL's incoming CFO, Jerry Fetzer, as well as Anita Junior, ASL's new Deputy Director of Gaming.

Ms. Baldridge stated that the Legislative Oversight Committee would be meeting on December 6, saying that one anticipated question from the LOC would be, "what is the Lottery doing to maximize funding for scholarships through lottery products?" She recommended that lottery staff research the feasibility of a five-number Arkansas draw game or a similar product, adding that it could result in higher dollar-for-dollar net revenue, it would be another choice for players, and it would create new potential for scholarship funding. Commissioner Engstrom moved to approve the research, Commissioner Frazier seconded the motion, and the motion passed unanimously.

Ms. Baldridge presented her financial report. In a comparison of October 2011 versus October 2011, ticket sales were up, but prizes showed a 10.6% uptick and retail commissions took a bigger bite. As a result, scholarships went down about $400,000. Referring to the Comparative Income Statement for October 2011 and 2010, Commissioner Engstrom asked Mr. Hyde to explain why gaming contract costs went down $900,000 in October 2011 compared to October 2010, even though the revenue went up. Mr. Hyde explained that during the previous fiscal year audit, the Bureau of Legislative Audit made a determination that Points for Prizes was a gaming contract cost rather than a prize expense. In October 2010, an adjustment against the prize fund was made for the period July 2010 through October 2010.

On the Comparative Income Statements for October 2011, Actual versus Budget, she noted that projected sales of instant tickets came in a little low, and the projections for draw tickets came in a little high. Prizes were more than $1.5M higher than expected, and there were higher gaming costs (7.6%) and net income was 2.8% lower than anticipated. There was a growth in the percentage of gaming costs, while administrative costs were going down. The weekly sales trend reflected sales were a little higher than last year. Summing it up, she said that October was close to projections and other months were a little lower, and that ALC was closer to coming in on budget.

Commissioner Malone noted that on the Comparative Income Statement, there was a significant decline in the advertising budget of October 2011 compared to October 2010, and asked if there was a shift in strategy. Ms. Bunten replied that there was no change, that normally October was a higher month [regarding advertising dollars spent], and that she did not have an explanation for the numbers. She said she asked a similar question to Terry Williams, the Controller. It was determined that figures on the income statement were based on invoices paid, rather than the actual projected expense. Ms. Bunten added that she projected advertising expenses of around $430,000 [for October 2011]. Commissioner Engstrom asked Ms. Bunten if in-house production was budgeted at cost or if it was based on the cost of an outside ad agency. Ms. Bunten stated that the budget was based on in-house costs.

Ms. Baldridge said that Ms. Bunten's department would be producing county-by-county beneficiary ads at the beginning of the year and added that Ms. Bunten had begun

charting the ads so that in the future her department could analyze the effectiveness of the each campaign.

Commissioner Engstrom stated that he was aware that a tremendous amount of effort had gone into the production of the CAFR and expressed his appreciation. Ms. Baldridge stated that [ALC] owed Mr. Hyde a tremendous debtof gratitude for taking part in a project that fell outside his area of responsibility.

Chairman Lamberth asked for a report from the Legal department. Mr. Woosley reported that the Legal Counsel RFQ and Responses were due December 2, 2011, and if any responses were received on that date, they would be reviewed by the Audit and Legal Committee. He also reported that the Bridgette Frazier vs. ALC, et al. lawsuit was dismissed on November 15, 2011. Mr. Woosley said that Ms. Frazier has 30 days from that date to appeal the judgment.

The next item on the agenda was a report from the Personnel Committee. Chairman Lamberth announced that a suggestion had been brought forward by one of the Commissioners to rename the Personnel Committee, changing it to the Personnel and Policies Committee. Commissioner Faris stated that it was his suggestion, saying that his intent was directed toward the Lottery Commissioners rather than the Lottery in its entirety, and that it was more for internal rule changes that would be specifically applicable to Commissioners. After some discussion, it was decided that the subject could be addressed at a Personnel Committee meeting at a later date.

Commissioner Hammons, Chairman of the Personnel Committee, said that the Committee had met on November 18, and that Interim Director Baldridge had submitted to the committee four personnel action requests for review and consideration. Each personnel action request had been approved by the committee. Copies of those findings were distributed to Commission members (included in record). Commissioner Malone asked how many of those actions were to fill vacancies and how many were newly created positions. Commissioner Hammons responded that three of the requests were to fill vacancies. He added that the Production Coordinator/Videographer was an existing and previously filled position, but there was a request to reclassify the position from C112 to C117. Interim Director Baldridge explained that the Lottery had recently lost its production coordinator/videographer, who was paid at a level well below what was determined to be reasonable, based on salaries of comparable positions at other state agencies and in the market. She expects that by creating a higher pay slot, ALC would be able to attract and retain the necessary talent.

Additionally, the IT Gaming Division was reorganized, the catalyst being the resignation of the Product Development Director. That position was converted to create the Deputy of Gaming, and two mid-level positions were created from positions for product development for purposes of cross-training and protection of lottery operations. All these and other gaming personnel report to Gaming Director Mike Smith..

Commissioner Malone asked if the positions had been approved by OPM and the response was in the affirmative.

Commissioner Hammons presented the following to the Commission:

> This is a motion to approve a waiver of the required preapproval of compensatory pay of time-and-a-half to the evening computer operator in those instances where a multi-state game glitch keeps a person later than his or her usual departure. If ever there is a month in the future in which this situation arises more than three times, Personnel Committee members must be notified at the end of that month.

The motion was seconded by Commissioner Engstrom, passing unanimously.

Commissioner Malone brought up for discussion the necessity of a full commission vote for the reorganization of the IT Gaming Division. Commissioner Engstrom moved to accept the reorganization of IT Gaming Division, Commissioner Frazier seconded the motion, and the motion carried unanimously.

Next on the agenda was a report from the Audit and Legal Committee. Commissioner Pickard, Chair, stated that the Committee would be meeting on Wednesday, December 7, at 10:00 a.m., at which time the committee would review the Outside Legal Counsel RFQ submissions. Commissioner Pickard called on Internal Auditor Hyde to give an informal presentation on the report that was submitted by Legislative Audit to the Legislative Joint Audit Committee (included in record).

Mr. Hyde stated that he and Ms. Hall had already done preliminary follow-up to the report and that he believed most issues had been addressed and resolved, adding that he did not believe there would be prolonged monthly reports. He added that the travel issues would be addressed by the new Chief Financial Officer once onboard. Mr. Hyde reiterated that (1) other than isolated travel issues, there were no repeat findings and, (2) ALC travel policies were consistent with DFA, but that ALC would have to see if there were areas that needed to be improved upon.

Commissioner Engstrom asked if any of the travel issues continued after the end of the fiscal year, i.e., June 30th, and if so, would those need to be addressed with Legislative Audit so that they were not considered repeat findings. Mr. Hyde responded that he would make that one of his objectives, that is, to follow up on the travel issues for the current fiscal year.

Commissioner Pickard asked that Chief Legal Counsel Woosley speak to the Commission regarding the specific travel issues in the Legislative Audit Report.

Mr. Woosley stated that anytime there is an undocumented or unsubstantiated use of state funds, Legislative Auditis required under the law to report the occurrence to the

prosecuting attorney of the county in which the agency is located. Mr. Woosley added that that had been done in this case. Mr. Woosley said that the prosecutor would have an opportunity to review the issue and make a determination as to whether or not the state was owed any money, and whether or not it rose to the level of criminal offense for improper use of state funds. Mr. Woosley explained that the prosecutor's office had resources, investigators, and funding, as well as the ability to subpoena that the Commission did not necessarily have. He recommended that the Commission allow the prosecutor, if he so chose, to do the investigation to determine whether or not anything had been found to be improper. He added that the prosecutor would have to reach a higher burden of proof, so would either do an intensive investigation, or, if deciding not to do an investigation, there would at least be information gathered to meet the burden of proof, whether or not the prosecutor chose to file some type of charge. The prosecutor could seek restitution for the state, or if he chose not to [file charges], the investigation would be over and under Arkansas law, ALC could access the information compiled by the prosecutor's office and the Lottery could then use that information should it choose to seek restitution.

Mr. Woosley said that Legislative Audit subpoenaed and reviewed travel documents, which were then compared to leave records. The investigation was inconclusive as to whether or not the individuals in question should have taken leave. Mr. Woosley explained that what Legislative Audit had found was that ALC had a certain policy of time that individuals work, and based on the travel on the individuals, they traveled outside of the confines of that schedule of a normal workday, there being no alternative work schedule that had been approved by the Commission. In other words, those individuals may have worked at other times outside of the 8:00 a.m.-4:30 p.m. range that the ALC Handbook outlines.

Commission Engstrom asked to note for the record that he was to be recused from communication between the Lottery Commission and Larry Jegley, the [Pulaski-Perry County] prosecuting attorney because Mr. Jegley was a client of his.

Commissioner Pickard thanked both Mr. Woosley and Mr. Hyde on behalf of the Audit and Legal Committee, stating that they had both done excellent work in reviewing [the travel issues] and for bringing the information before the Commission.

Commissioner Malone asked Mr. Hyde if, of the new findings, management had taken steps to address or correct the other items that were identified, outside of the travel issues. Mr. Hyde stated that, through interviews and testing of [Security Director] Huey and his staff, along with Legislative Audit before the presentation to the Joint Audit Committee, it appeared that action had been taken on all of the findings. He added that there would be a follow-up in the December LOC Report.

The next item on the agenda was the Director Search. Commissioner Hammons made a motion to use the same list of qualifications and requirements for the ALC

Director search that had been previously distributed and the motion was seconded by Commissioner Frazier. The motion passed unanimously.

Chairman Lamberth stated that the next item to consider was the procedure for posting the Director position, as well as the dates to post. Ms. Lamberth suggested the ALC website, LaFleur's Magazine, the Public Gaming website, and the NASPL daily news service. Commissioner Pickard suggested adding in-state newspaper(s). Commissioner Malone suggested adding the Arkansas State Jobs website. Commissioner Hammons moved to post the Director position on the ALC website, LaFleur's Magazine, the Public Gaming website, NASPL news service, in-state newspaper(s), and the Arkansas State Jobs website. The motion was seconded by Commissioner Pickard, and it passed without dissent.

Also discussed was when to post and how long to post prior to interviews. Commissioner Pickard suggested setting a priority deadline, but that the position was to remain open until filled. Commissioner Hammons suggested posting the job announcement on December 1 or earlier.

Commissioner Pickard noted that the Commission meeting was scheduled for January 2, 2012, and suggested that it be moved to January 9, 2012.

The commissioners discussed the best way to handle the applications as they were received. It was collectively decided that, as applications came in, hard copies were to be sent to the commissioners.

Commissioner Pickard moved that the priority deadline be set for January 4th and that the commission begin deliberations on the 9th of January, with the expressed caveat that deliberations not necessarily be concluded on the 9th, that is, with the understanding that applications could be accepted until the position was filled. Commissioner Engstrom seconded the motion. The motion passed unanimously. Commissioner Malone pointed out that the applications are considered public documents as soon as received by the Arkansas Lottery Commission and reminded everyone that the search was a very public process.

Interim Director Baldridge asked if the hiring process would include the option of Commissioners nominating applicants, as well as receiving applications. Commissioner Pickard stated that to ensure transparency, the Commission should request that all applications be received. It was agreed by all Commissioners that nominations for the Director position not be considered. Ms. Baldridge also asked if it would be acceptable to limit expenses involved in posting the position in the paid locations by truncating the posting and referring interested parties to the ASL website or arstatejobs.com website for further information. This was unanimously agreed upon by the Commissioners.

Commissioner Engstrom asked how the Director selection was done in 2009, and it was explained to him that the Commissioners received application packets at regular

intervals. When the date of the [selection] meeting was decided, the Commissioners all brought the names of their top applicants and then at some point cut the list to the top three (3) by ranking.

It was decided that there would be no Commission meeting in December and for Commissioners to plan on an extended meeting in January.

There being no further business, the meeting was adjourned.

Arkansas Scholarship Lottery

Report, Interim Director
February 6, 2012

Comparative Income Statements
November 2011 and 2010

GAAP Basis Income

Statement	November 2011	November 2010	Variance	Percentage Variance
REVENUES				
Instant tickets	$ 30,794,943	$ 30,408,110	$ 386,833	1.3%
Online Tickets	5,704,470	4,942,714	761,756	15.4%
Retailer app. fidelity	50,439	87,450	(37,011)	-42.3%
Interest Income	28,008	34,464	(6,456)	-18.7%
TOTAL Revenues	36,577,860	35,472,738	1,105,122	3.1%
COSTS AND EXPENSES				
Prizes net (-unclaimed)	24,441,857	22,726,728	(1,715,129)	-7.5%
Retailer Commissions	2,041,989	1,993,265	(48,724)	-2.4%
Gaming Contract Costs	1,960,635	1,746,210	(214,425)	12.3%
Advertising	288,820	82,364	(206,456)	250.7%
General and Administrative	567,912	631,403	63,491	10.1%
Other Agency Services	137,540	28,100	109,440	389.5%
TOTAL Costs and Expenses	29,438,753	27,208,070	(2,230,683)	-8.2%
Net Income	$ 7,139,107	$ 8,264,668	$ (1,125,561)	-13.6%
Scholarship Percentage	19.5%	23.3%		-3.8%

Comparative Income Statements
November 2011 Actual Versus Budget

GAAP Basis Income Statement	November 2011 Actual	November 2011 Budget	Variance	Percentage Variance
Revenues				
Instant tickets	$ 30,794,943	$ 29,226,156	$ 1,568,787	5.4%
Online tickets	5,704,470	5,820,828	(116,358)	-2.0%
Retailer application, fidelity & service	50,439	49,462	977	2.0%
Interest Income	28,008	18,333	9,675	52.8%
Total Revenues	36,577,860	35,114,779	1,463,081	4.2%
Costs and Expenses				
Prizes, net of unclaimed	24,441,857	22,699,491	1,742,366	7.7%
Retailer Commissions	2,041,989	1,963,012	78,977	-4.0%
Gaming Contract Costs	1,960,635	1,787,743	172,892	-9.7%
Advertising	288,820	375,000	(86,180)	23.0%
General and Administrative	567,912	732,701	(164,789)	-22.5%
Services Provided By Other Agencies	137,540	147,107	(9,567)	-6.5%
Total Costs and Expenses	29,438,753	27,705,054	1,733,699	-6.3%
Net Income	$ 7,139,107	$ 7,409,725	($ 270,618)	-3.7%

Percentage Comparative Income Statements

GAAP Basis Income Statement	November 2011 Actual	November 2011 Budget	November 2010 Actual
REVENUES			
Instant tickets	84.2%	83.2%	85.8%
Online tickets	15.6%	16.6%	13.9%
Retailer application, fidelity & service	0.1%	0.1%	0.2%
Interest Income	0.1%	0.1%	0.1%
TOTAL Revenues	100.0%	100.0%	100.0%
COSTS, EXPENSES & NET INCOME			
Prizes, net of unclaimed	66.7%	64.6%	64.1%
Retailer Commissions	5.6%	5.6%	5.6%
Gaming Contract Costs	5.4%	5.1%	4.9%
Advertising	0.8%	1.1%	0.2%
General and Administrative	1.6%	2.1%	1.8%
Services Provided By Other Agencies	0.4%	0.4%	0.1%
Net Income	19.5%	21.1%	23.3%
Total Costs, Expenses & Net	100.%	100.0%	100.%

Comparative Income Statements
December 2011 and 2010

GAAP Basis Income

Statement	December 2011	December 2010	Variance	Percentage Variance
REVENUES				
Instant tickets	$ 33,184,615	$ 33,351,956	$ (167,341)	-0.5%
Online Tickets	6,420,839	6,798,817	(377,978)	-5.6%
Retailer app. fidelity	55,298	90,037	(34,739)	-38.6%
Interest Income	32,868	39,250	(6,382)	-16.3%
TOTAL Revenues	39,693,620	40,280,060	(586,440)	-1.5%
COSTS AND EXPENSES				
Prizes net (-unclaimed)	25,304,410	26,622,221	(1,317,811)	-5.0%
Retailer Commissions	2,216,970	2,281,975	(65,005)	-2.8%
Gaming Contract Costs	2,026,088	2,024,084	2,004	0.1%
Advertising	656,000	675,276	(19,276)	-2.9%
General and Administrative	608,841	839,374	(230,533)	-27.5%
Other Agency Services	137,540	28,100	109,440	389.5%
TOTAL Costs and Expenses	30,949,849	32,471,030	(1,521,181)	-4.7%
Net Income	$ 8,743,771	$ 7,809,030	$ 934,741	12.0%
Scholarship Percentage	22.0%	19.4%		-2.6%

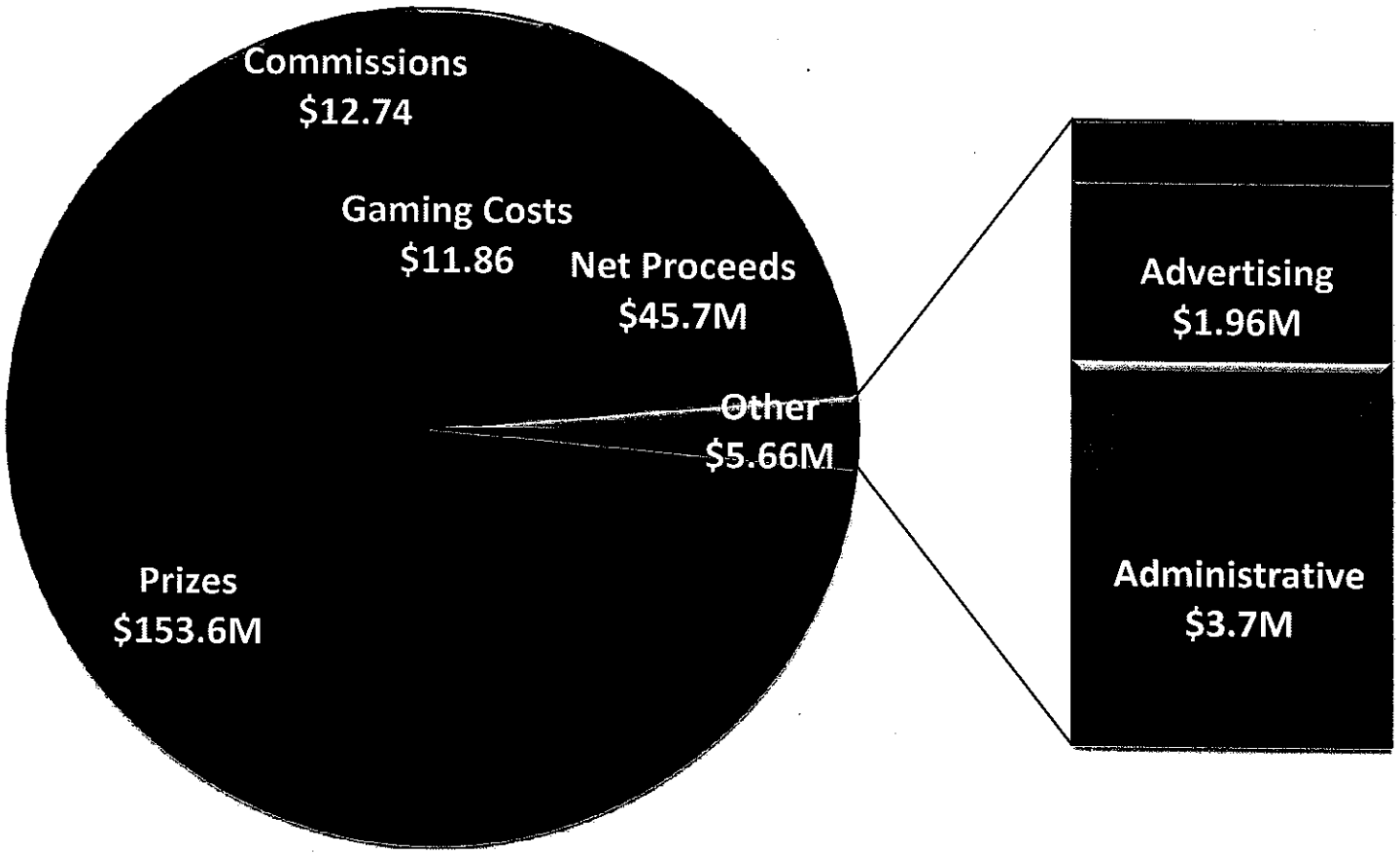
Comparative Income Statements
December 2011 Actual Versus Budget

GAAP Basis Income Statement	December 2011 Actual	December 2011 Budget	Variance	Percentage Variance
Revenues				
Instant tickets	$ 33,184,615	$ 32,290,940	$ 893,675	2.8%
Online tickets	6,420,839	7,480,713	(1,059,874)	-14.2%
Retailer application, fidelity & service	55,298	51,786	3,512	6.8%
Interest Income	32,868	18,333	14,535	79.3%
Total Revenues	39,693,620	39,841,772	(148,152)	-0.4%
Costs and Expenses				
Prizes, net of unclaimed	25,304,410	25,634,096	(329,686)	-1.3%
Retailer Commissions	2,216,970	2,227,402	(10,432)	-0.5%
Gaming Contract Costs	2,026,088	2,028,526	(2,438)	-0.1%
Advertising	656,000	375,000	281,000	74.9%
General and Administrative	608,841	732,701	(123,860)	-16.9%
Services Provided By Other Agencies	137,540	147,107	(9,567)	-6.5%
Total Costs and Expenses	30,949,849	31,144,832	(194,983)	-0.6%
Net Income	$ 8,743,771	$ 8,696,940	$ 46,831	0.5%

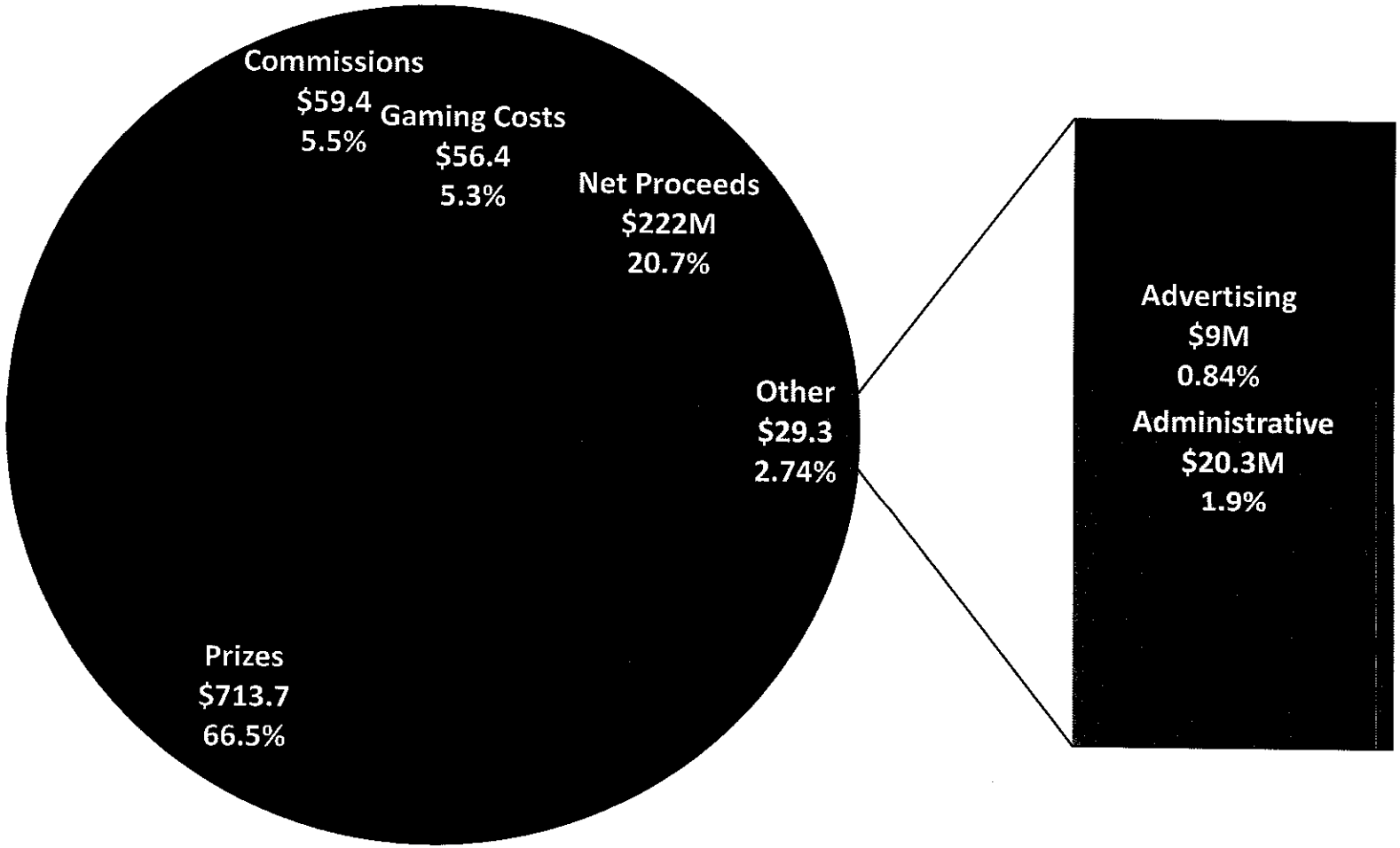
Percentage Comparative Income Statements

GAAP Basis Income Statement	December 2011 Actual	December 2011 Budget	December 2010 Actual
REVENUES			
Instant tickets	83.6%	81.0%	82.8%
Online tickets	16.2%	18.8%	16.9%
Retailer application, fidelity & service	0.1%	0.1%	0.2%
Interest Income	0.1%	0.1%	0.1%
TOTAL Revenues	100.0%	100.0%	100.0%
COSTS, EXPENSES & NET INCOME			
Prizes, net of unclaimed	63.8%	64.4%	66.0%
Retailer Commissions	5.6%	5.6%	5.7%
Gaming Contract Costs	5.1%	5.1%	5.0%
Advertising	1.7%	.9%	1.7%
General and Administrative	1.5%	1.8%	2.1%
Services Provided By Other Agencies	0.3%	0.4%	0.1%
Net Income	22.0%	21.8%	19.4%
Total Costs, Expenses & Net	100.0%	100.0%	100.0%

The Arkansas Lottery Dollar
Six Months Ended Dec. 31, 2011 (Unaudited)
Total Revenues $ 226.7 Million
Education Trust $45.7 Million

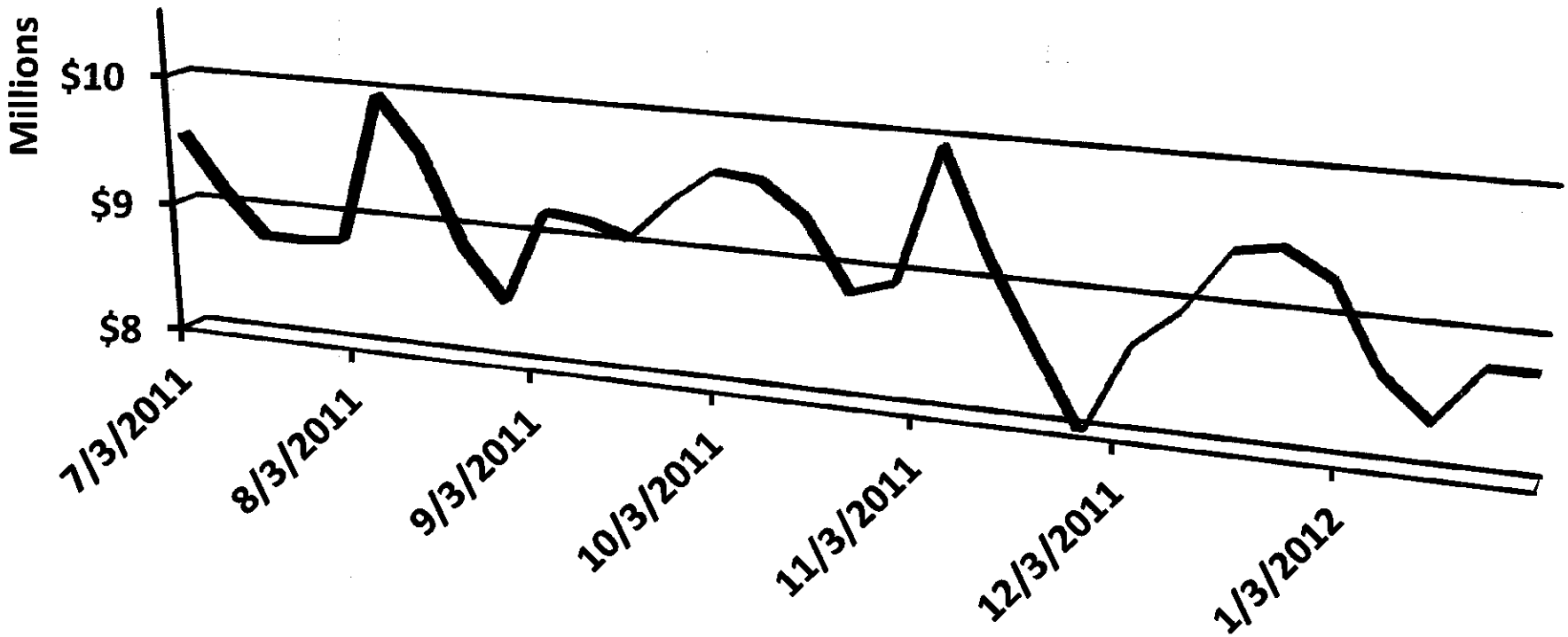


Arkansas Lottery Dollar
9/28/2009 thru 2011 -- $1.074 Billion
(Unaudited)
Scholarships $222M



(Totals Expressed In Millions)

Weekly Sales Trend
7/01/11 – 1/29/2012



FY 2012 ADHE Transfer Analysis

Month	Actual Transfers	Budgeted Transfers	Over/Under Budget	Cumulative Balance
July, 2011	$7,146,103	$ 7,760,277	$614,174	$614,174
August	$7,543,554	$ 7,661,733	$118,179	$732,353
September	$6,973,180	$ 7,466,008	$492,828	$1,225,181
October	$8,133,706	$ 8,205,900	$72,194	$ 1,297,375
November	$7,994,126	$ 7,740,766	**$253,360**	$1,044,015
December	$7,888,279	$ 9,027,980	$1,139,701	$2,183,716
January, 2012		$ 9,003,536		
February		$ 9,157,597		
March		$ 10,501,849		
April		$ 8,411,342		
May		$ 9,434,088		
June		$ 8,577,674		
Totals		**$ 102,948,750**		

Unclaimed Prizes
July 1 – Dec. 31, 2011

- Unclaimed lottery prize money: $2,615,988
- Expenditures from Unclaimed: $0
- Reserved, future prizes/promotions: $0

- **Deposits to net proceeds from Unclaimed Prizes: $2,615,988**

New $20 Instant Ticket
Arkansas Millionaires Club

Sales begin February 7, 2012

50/50 Facts

- 50/50 Raffle, Oct. 1, 2011 – Jan. 31, 2012
- Sales: October $130,345

  November $120,750

  December $149,770

  January $124.690

  TOTAL: $525,555

  PRIZES: $262,777

  OVERHEAD: $73,578 (Commissions, Vendors, Ads, Ops)

  NET FOR SCHOLARSHIPS: $205,843 (39.17%)

Arkansas Lottery Commission
2011 - 2012 Internal Audit Plan
Status Report
February 6, 2012

Project	Description	Status	Comments
Special Projects			
Facilitate Lottery Risk Assessment required by DFA	Biennial request by DFA to identify risk to Lottery operations, likelihood of occurrence, impact on operations, and controls implemented by Lottery management to mitigate identified risk.	Planned	CFO and Internal Auditor plan to work together in preparing risk assessment.
Gaming System SSAE 16 Review	Review Gaming System SSAE 16 Report prepared by independent auditors.	Complete	The Service Auditor's Report for Arkansas Scholarship Lottery Game Transaction Processing (Report of Controls Placed in Operation and Tests of Operating Effectiveness) completed by McGladrey & Pullen, LLP for the period July 1, 2010 to June 30, 2011 was issued August 26, 2011.
Financial Statements & Comprehensive Annual Financial Report (CAFR) Review	Review of Fiscal Year 2011 Financial Reports.	Complete	The Comprehensive Annual Financial Report (CAFR) including the audited financial statements for the Lottery was released on November 10, 2011.

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Project	Description	Status	Comments
Periodic Reviews			
Instant Ticket Quality Reports	Annual review of independent quality control reports of Arkansas Scholarship Lottery instant tickets.	Complete	Report issued December 15, 2011. No findings or recommendations.
Revenue/Prize Payments - Instant Ticket Games	Annual review of instant ticket game sales, prize expenses, prizes payable, and unclaimed prizes.	Fieldwork in Progress	
Retailer Sweeps	Annual review to assess the existence and effectiveness of the controls and processes established by management of the Arkansas Scholarship Lottery to ensure the proceeds from on-line and instant ticket lottery game sales are collected in full and in a timely manner.	Fieldwork in Progress	
Revenue/Prize Payments/Reserves - Online Games	Annual review of online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes.	Near Completion	Five reports will be issued for this project. Cash 3, Cash 4 , Powerball, and Mega Millions reports were Issued January 20, 2012. (No findings or recommendations), Decades of Dollars (Fieldwork in progress).

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Project	Description	Status	Comments
Periodic Reviews continued...			
High-Tier Prize Payments Documentation	Biannual review of the processing and supporting documentation of high-tier prize payouts.	Near Completion	Fieldwork has been completed at all claims centers.
Education Trust & Shortfall Reserve Funds	Review transactions, confirm balances, and ensure sufficient collateralization. Provide Arkansas Lottery Commission with a schedule of Educational Trust Account transactions.	Monthly	Reviews have been completed through December 2011. No Exceptions Noted.
Employee Travel Reimbursement	Review employee travel reimbursements. Ensure sufficient documentation is obtained and confirm reimbursement amounts. Provide Arkansas Lottery Commission with a quarterly schedule of employee out-of-state travel.	Quarterly	Reviews have been completed through December 2011. No Reportable Findings. Quarterly employee out-of-state travel schedules have been completed for the first and second quarter of fiscal year 2012.

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Audits			
Licensing - Applications	Review the internal controls surrounding the retailer licensing process (applications).	Planned	Security is revising processes and reorganizing files. Audit will be conducted in Spring 2012.
Licensing - Renewals	Review the internal controls surrounding the retailer licensing process (renewals).	Planned	Security is revising processes and reorganizing files. Audit will be conducted in Spring 2012.
Prize Validation & Payments	Review of the internal controls surrounding high-tier prize validations and payments.	Planned	
Instant Ticket Lottery Game Services Contract Compliance	Contract compliance audit of the Instant Ticket Lottery Game Services Contract (Scientific Games).	Fieldwork in Progress	
Back Office System (BOS) Administration (See Note 1)	Internal control review of the Lottery's Back Office System's (BOS) Administration functions.	Planned	
Instant Ticket Game Loads (See Note 1)	Review of the internal controls surrounding the Instant Game Management System (IGMS), including access controls and instant ticket game loading, testing, and processing.	Planned	

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

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

Gaming Operations

Product Development - Cabell

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

Security - Huey

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

IT Gaming - Smith

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

Administration

Contracts - Woosley

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

Treasury - Parrish

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

Fiscal - Miley

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

Human Resources - Basham

35 Background Checks
36 Human Resource Processes

Information Technology - Vacant

37 IT General Controls

Internal Operations - Hudson

38 Lottery Vehicles

Licensing - Lee

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

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