

# ARKANSAS GENERAL ASSEMBLY



Senator David Johnson

Chairman

Representative Barry Hyde

Chairman

## ARKANSAS LOTTERY COMMISSION LEGISLATIVE OVERSIGHT COMMITTEE

December 14, 2010

Ernie Passailaigue, Director  
Arkansas Lottery Commission  
P. O. Box 3238  
Little Rock, AR 72203-3239

Dear Mr. Passailaigue:

This letter is sent to address the need to balance the following two concerns:

- 1) Section 2010-2 of Deputy Legislative Auditor Charles F. Fiser's October 19, 2010 report to the Legislative Joint Auditing Committee concerning "Internal Control Over Financial Reporting and on Compliance and Other Matters" at the Lottery Commission, and
- 2) the Lottery's need to react quickly and effectively to changing market conditions.

As Co-chairs of the Arkansas Lottery Commission Legislative Oversight Committee, we recommend that the Lottery Commission adopt the following:

Effective immediately, the Arkansas Lottery Commission will provide immediate notice to the Arkansas Lottery Commission Legislative Oversight Committee of:

1. Any agreement entered into by the Lottery Commission as a result of a change to an existing major procurement contract; and
2. Any ancillary agreement entered into by the Lottery Commission as a result of the Commission's selection of an option under an existing major procurement contract.

Notice provided by the Lottery Commission to the Legislative Oversight Committee will include:

1. Date of agreement;
2. Term of agreement (time period);
3. Vendor or other parties to the agreement; and
4. Value (cost or cost savings) projected for the agreement.

Please review this language with your legal staff and inform our Staff Analyst, Patrick Ralston, of any problems or concerns.

Respectfully,

Representative Barry Hyde  
House Co-chair

Senator David Johnson  
Senate Co-chair

Cc: Diane Lamberth, Chair, Arkansas Lottery Commission  
Roger Norman, Legislative Auditor, Division of Legislative Audit

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

**DRAFT – DOCUMENT IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT’S REVIEW PROCESS. ADDITIONAL SECTIONS MAY BE ADDED.**

**SUBJECT TO CHANGE**

## Narrative on Instant Ticket Lottery Game Contract Pricing and Term Modifications

### **Initial Contract**

- Scientific Games’ (SGI) Official Proposal Price Sheet (**Attachment A**) for the Arkansas Lottery Commission Instant Ticket Lottery Game Services Request for Proposal (RFP) # ALC-090001 was submitted on July 29, 2009.
- Scientific Games’ Official Proposal Price Sheet offered two options: (**See Attachment A, PAGE 3 of 22**)
  - 1.75% of instant ticket sales
  - OR
  - 1.15% of instant ticket sales and the implementation of “Properties Plus” at the rate of 2.3078% of the prize fund for all tickets regardless of which vendor prints the tickets
- Properties Plus includes the following: (**Attachment B**)
  - Points for Prizes
  - Players Club
  - Play It Again
  - Licensed Properties
  - Easy Entry Validation
  - Player Registration Module
- The Scientific Games’ Official Proposal Price Sheet was provided to the Commission members for review during the August 5, 2009 Arkansas Lottery Commission meeting.

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

- The Arkansas Lottery Commission unanimously approved the Intent to Award the Instant Ticket Lottery Game Services Contract and the Contract Execution, pending review by the Legislative Lottery Oversight Committee. (**Attachment C, PAGES 4 - 6 of 12**)
- The Instant Ticket Lottery Game Services Contract Evaluation Summary and Scientific Games’ Official Proposal Price Sheet was provided to the Arkansas Legislative Lottery Oversight Committee (LOC). The LOC reviewed the Instant Ticket Lottery Game Services Contract approved by the Arkansas Lottery Commission on August 13, 2009. (**Attachment D**)
- The Agreement for Contractual Services for Instant Ticket Lottery Games Services between the Arkansas Lottery Commission and Scientific Games was executed on August 18, 2009. (**Attachment E**).

The Agreement for Contractual Services for Instant Ticket Lottery Games Services - Agreements Section – Terms of Compensation (Item 3) states in part “*Instant ticket pricing for SGI’s comprehensive product solution is located in SGI’s Official Proposal Price Sheet. The attached pricing information was offered by SGI in response to Section 5.1.1 (Pricing Formula) and 5.1.2 (Determination of Net Sales) of the Instant Ticket Lottery Games Services Request for Proposal which commences with the execution of the Contract on the 18(th) day of August 2009.*”

The Instant Ticket Lottery Game Services Request for Proposal (RFP) Section 5. – Evaluation Criteria for Selection (Subsection 5.1 – Cost) under the Pricing Formula Section (5.1.1) states, in part, the following: **Bidders must include all pricing information on the Official Price Proposal Sheet**

- Arkansas Lottery Commission Chair, Ray Thornton, announced at the August 19, 2009 Arkansas Lottery Commission meeting that the Instant Ticket Contract has been executed.
- Lottery Management and Scientific Games appear to have agreed upon the election of the “Properties Plus” option (1.15% of instant ticket sales and 2.3078% of the prize fund).

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

Note that the Order/Price Confirmation for one of the first four games printed for the Arkansas Scholarship Lottery (Game 4 - \$100,000 Cash Bonanza) dated August 19, 2009 and signed by Arkansas Scholarship Lottery Management (David Barden – former Vice President of Gaming) and Scientific Games on August 25, 2009 indicates that the final invoice will be based on a percentage of sales at a rate of 1.15%. (***Attachment F***)

This is consistent with the original Official Proposal Price Sheet that was approved by the Arkansas Lottery Commission on August 5, 2009 and reviewed by the Arkansas Legislative Lottery Oversight Committee on August 13, 2009 (“Properties Plus” option).

#### **Contract Revisions**

- The Recital of Selected Options (***Attachment G***) was signed by Lottery Management (Ernie Passailague – former Arkansas Scholarship Lottery Director) and Scientific Games on August 25, 2009. The document states the following: “*Revisions to Original Pricing Schedule (Dated July 29, 2009) between the Arkansas Lottery Commission and Scientific Games International Agreement for Additional Service Options and Fees.*”
- The revisions in pricing and terms that are listed in the Recital of Selected Options document do not appear to be approved by the Arkansas Lottery Commission or reviewed by the Arkansas Lottery Commission Legislative Oversight Committee.

Internal Audit reviewed the minutes and listened to the audio of the Arkansas Lottery Commission meetings dated August 5, 2009, August 12, 2009, August 19, 2009, and August 26, 2009 and did not note any evidence that the modifications to the Instant Ticket Lottery Games Services Contract between the Arkansas Lottery Commission and Scientific Games was presented by Arkansas Scholarship Lottery Management to the Arkansas Lottery Commission.

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

The fiscal year 2010 Arkansas Lottery Commission Audit Report prepared by the Division of Legislative Audit noted the following in Finding 2010-2 *“The subsequent Recital of Selected Options and three licensing agreements were not approved by the Commission or reviewed by the LOC.” (Attachment H)*

The Arkansas Scholarship Act (23-115-701(e)(1)) states, in part, *“Each proposed major procurement contract and each amendment or modification to a proposed or executed major procurement contract shall be filed with the Arkansas Lottery Commission Legislative Oversight Committee for review at least thirty (30) days before the execution date of the major procurement contract or the amendment or modification to a proposed or executed major procurement contract.”*

The Arkansas Lottery Commission Major Procurement Rules Section 6 (D) states, in part, *“All bids, offers, quotes or proposals and the contracts resulting from solicitations are subject to the requirements of and must comply with the Act, regardless of whether or not specifically addressed in either the solicitations or the proposal. All potential vendors shall read and be familiar with the Act, a copy of which may be obtained through a link on the Commission’s web site.”*

The Instant Ticket Lottery Game Services Request for Proposal (RFP) (Page 3) states, in part, *“Vendors are subject to all requirements of the Arkansas Lottery Commission Major Procurement Rules, whether such requirements are specifically set forth in this RFP or not.”*

The Arkansas Lottery Commission Major Procurement Rules Section 5 (G) states, in part, *“The Commission may enter into a contract amendment with respect to a major procurement contract if the Director determines any or all of the following: (A) the contract amendment is within the original scope of work and within the intent and purpose of the applicable major procurement contract, (B) the contract amendment is a logical extension to the original scope of work of the applicable major procurement contract, or (C) if entered into as a stand-alone contract, such contract would not constitute a major procurement contract.”*

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

- The following five (5) changes were made by the Recital of Selected Options document dated August 25, 2009 without the approval of the Arkansas Lottery Commission and the Arkansas Legislative Lottery Oversight Committee on August 5, 2009.

#### **Change # 1 - Pricing Change**

The document increases the billing percentage based on sales for the Instant Game contract from 1.15% to 1.92%. Also, in lieu of electing the “Properties Plus” option offered in the Official Proposal Price Sheet at a rate of 2.3078% of the prize fund; a “Points for Prizes” option was added at a rate of 1.5% of the prize fund.

The options are broken out in the following manner:

- Instant Ticket Lottery Game Services – 1.69%
- Web Site Marketing Services (Player’s Club/Internet Marketing) - .09%
- Play It Again and Second Chance Drawing Management Services - .14%
- Points for Prizes Rewards/Merchandise Prizes and Fulfillment – 1.50% of the prize fund for all instant ticket games included in the program

The Web Site Marketing Services, Play It Again and Second Chance Drawing Management Services, and Points for Prizes are all part of the “Properties Plus” Program.

Lottery management issued a Post Executed Change (PEC) on October 2, 2009 (Game 4 - \$100,000 Cash Bonanza) to reflect the “Revisions to the contract pricing.” The documents were prepared by Scientific Games. (***Attachment I, Page 1 of 3***)

Note the change the pricing: Original Contract Price (1.15%) (***Attachment F***) and Revised Contract Price (1.92%) (***Attachment I, PAGE 3 of 3***). The Documents were prepared by Scientific Games and were signed by former Vice President of Gaming, David Barden.

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

Scientific Games’ response to the Instant Ticket Lottery Games Services Request for Proposal (RFP) Section 5 Evaluation Criteria for Selection (Subsection 5.4 – Program Options) (**Attachment J**) states, in part, the following:

*“The fee would be noted on each prize structure prepared by the ALC. In return for the annual fee, The Lottery would receive: An amount of bonus prizes equal to the Lottery payment.”*

*“The ALC benefits from the “Properties Plus Program” because it gets to: Preserve its prize payout claim, since players receive bonus prizes equal to the amount of the fee paid by the Lottery from the prize fund.”*

Internal Audit could not identify any additional services provided by Scientific Games in the Recital of Selected Options to justify the pricing modifications to the original negotiated contract price (Official Proposal Price Sheet) approved by the Arkansas Lottery Commission on August 5, 2009. However, based on conversation with Lottery Management, Scientific Games’ position is that the Tel-Sell operations were not part of the original contract, therefore additional services were provided. See Change #3 – Tel-Sell Operations Provided by Scientific Games (See Page 8 of 20).



## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

#### **Change #2 - Selected the invited option of Failsafe (keyless validation bar code) @ \$1.89 per 1000 tickets for all tickets printed and delivered.**

The purpose of The Recital of Selected Options dated August 25, 2009 was for Lottery management to select “invited options” included in the Official Proposal Price Sheet approved by the Arkansas Scholarship Lottery Commission on August 5, 2009 and reviewed by the Arkansas Lottery Commission Legislative Oversight Committee on August 13, 2009.

The Instant Ticket Lottery Game Services Request for Proposal (RFP) Section 1. – General Information (Subsection 1.26 – Cost) states, in part, “Vendors may expand items to identify all proposed services. A separate listing, which must include pricing, may be submitted with summary pricing.”

Failsafe was an “invited option” that included pricing (\$1.89 per 1000 tickets) in the Scientific Games’ Official Proposal Price Sheet approved by the Lottery Commission on August 5, 2009 and reviewed by the Arkansas Lottery Commission Legislative Oversight Committee on August 13, 2009 **(See Attachment A, PAGE 9 of 22)**.

Internal Audit does not have any issues with the process in which the Failsafe option was selected.

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

#### **Change #3 - Tel-Sell operations provided by Scientific Games are included in the Instant Ticket Game Lottery Services percentage.**

The Tel-Sell operators are responsible for contacting Lottery retailers via telephone and securing orders for instant tickets utilizing the Arkansas Lottery Gaming System’s Back Office System (BOS).

Tel-Sell is addressed as part of the Cooperative Services Program (CSP) in the Instant Ticket Game Lottery Game Services Request for Proposal (RFP) response submitted by Scientific Games in Section 4: Additional Vendor Requirements – Warehousing. (**Attachment K**)

Tel-Sell was not an invited option included on the Scientific Games’ original Official Proposal Price Sheet approved by the Lottery Commission on August 5, 2009 and reviewed by the Arkansas Lottery Commission Legislative Oversight Committee on August 13, 2009.

The Instant Ticket Game Lottery Game Services Request for Proposal (RFP) Section 1 – General Information (Subsection 1.26 – Cost) states the following:

1. “The ALC will not be obligated to pay any costs not identified on the Official Proposal Price Sheet.”
2. “Any cost not identified by the Vendor but subsequently incurred in order to achieve successful operation will be borne by the Vendor.”

The Instant Ticket Game Lottery Game Services Request for Proposal (RFP) Section 5 – Evaluation Criteria for Selection (Subsection 5.4 – Program Options) states, in part, the following: “As part of the basic compensation that has been proposed by the Successful Vendor, all items represented in the Proposal must be provided for unless specifically identified as options. If programs, equipment or services represented in the Proposal are not clearly indicated as options, the ALC will rightfully assume that the cost is included in the percentage of sales quotation in the Proposal.”

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

Scientific Games’ response to the *Instant Ticket Lottery Games Services Request for Proposal (RFP)* Section 5 Evaluation Criteria for Selection (Subsection 5.4 – Program Options) (**Attachment L**) states, in part, the following:

*“As part of the basic compensation proposed by Scientific Games, all items represented in our proposal will be provided for unless specifically identified as options. We understand and agree that if programs, equipment or services represented in our proposal are not clearly indicated as options, the ALC will rightfully assume that the cost is included in the percentage of sales quotation in the proposal.”*

#### **Change # 4 - Offered an Option for delivery of POS materials to Lottery Regional Offices.**

This option has not been utilized by the Arkansas Scholarship Lottery.

#### **Change # 5 – Exclusive Printer.**

Added the following to the agreement between the Arkansas Scholarship Lottery and Scientific Games: “All prices are based upon Scientific Games being the exclusive instant ticket provider throughout the entire term of the contract.”

The *Instant Ticket Game Lottery Game Services Request for Proposal (RFP)* Section 3. – Instant Ticket Operations (Subsection 3.7 – Distribution of Tickets from Other Vendors) states the following: *“The Successful Vendor may be required, up to seven (7) times a year, to package, warehouse, and distribute up to seven (7) instant ticket games per year purchased by the ALC from other Vendors, which will include as part of their bid price up to three (3) licensed properties of the ALC choice each year of the contract. If the ALC does not elect to use any or all of the licensed properties in any given year of the contract, usage will not roll over to subsequent years. These tickets will be distributed along with the Successful Vendor’s tickets, and the Successful Vendor will not be reimbursed for warehousing and distributing these tickets, nor will they be paid a percentage of sales, when the tickets are sold.”*

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

The August 5, 2009 Arkansas Lottery Commission meeting minutes states the following: *“Mr. Passailaigue reminded the Commission that the RFP provided for a secondary Instant Ticket Vendor, noting that the Commission may select up to seven games annually from this source and therefore, it (is) likely the Arkansas Scholarship Lottery would actually be doing business with one of the two unsuccessful vendors.”* **(Attachment C)**

Scientific Games being the exclusive instant ticket provider throughout the entire term of the contract was not an invited option or noted in Scientific Games’ original Official Proposal Price Sheet approved by the Lottery Commission on August 5, 2009 or reviewed by the Arkansas Lottery Commission Legislative Oversight Committee on August 13, 2009.

It appears that the Arkansas Scholarship Lottery no longer has the option to utilize a secondary vendor to print any instant ticket games up to seven times per year as provided for in the Instant Ticket Game Lottery Game Services Request for Proposal (RFP). The contract term is seven years.

Internal Audit could not identify any benefit or financial gain for the Arkansas Scholarship Lottery to exclusively use Scientific Games as the instant ticket game provider. In fact, the move seems to limit the Arkansas Scholarship Lottery’s options to utilize instant ticket games available from other vendors that might be successful in the State of Arkansas.

The arrangement appears to greatly benefit Scientific Games. An exact dollar amount of financial gain for Scientific Games cannot be determined. However, it is safe to surmise that the changed guarantees Scientific Games millions of dollars of additional revenues that could have been paid to another instant ticket game vendor per the Instant Ticket Game Lottery Game Services Request for Proposal (RFP).

Scientific Games factored in the possibility of not printing up to 49 games during the term of the contract in their bid price submitted on the Official Proposal Price Sheet.

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

Scientific Games’ response to the Instant Ticket Lottery Games Services Request for Proposal (RFP) Section 3. – Instant Ticket Operations (Subsection 3.7 – Distribution of Tickets From Other Vendors) (**Attachment M**) states, in part, the following:

*“Our proposal is based upon the sales performance model that the possible seven games from other vendors will represent no more than five percent of the annual overall instant ticket sales during the first two years of sales. The two years shall be measured starting from the time instant ticket sales begin in October 2009.*

*After the first two years of sales, our proposal is based upon the sales performance model that the possible seven games from other vendors will represent no more than 15% of the annual overall instant ticket sales.”*

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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**SUBJECT TO CHANGE**

### Narrative on “Properties Plus”

- The Arkansas Scholarship Lottery elected to implement Scientific Games’ “Properties Plus” program.
- Scientific Games’ (SGI) Official Proposal Price Sheet (Attachment A – Page 14 of 22) for the Arkansas Lottery Commission Instant Ticket Lottery Game Services Request for Proposal (RFP) states, in part, the following:

*"As a Properties Plus customer, the Lottery pays no license or royalty fees and nothing for the merchandise involved in a game, other than experiential prizes such as trips or grand prizes such as vehicles and motorcycles. All of this is included in the Properties Plus fee."*
- Scientific Games’ response to the Instant Ticket Lottery Games Services Request for Proposal (RFP) Section 5. Evaluation Criteria for Selection (Subsection 5.4 – Program Options) (**Attachment J**) states, in part, the following:

*"The fee would be noted on each prize structure prepared by the ALC. In return for the annual fee, the Lottery would receive: Unlimited use of Scientific Games licensed game portfolio."*

*"The ALC benefits from the “Properties Plus Program” because it gets to: Secure unlimited use of Scientific Games’ licensed game portfolio for no out-of-pocket costs."*
- See Schedule 6 – Analysis of Instant Ticket Lottery Game Services Contract – “Properties Plus”.

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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**SUBJECT TO CHANGE**

## Selected Reference Information

### **Excerpts from the Arkansas Scholarship Lottery Act**

- The Arkansas Scholarship Act (Subchapter 7 – Procurements – 23-115-701) states the following:

*(e)(1) Each proposed major procurement contract and each amendment or modification to a proposed or executed major procurement contract shall be filed with the Arkansas Lottery Commission Legislative Oversight Committee for review at least thirty (30) days before the execution date of the major procurement contract or the amendment or modification to a proposed or executed major procurement contract.*

*(e)(2) The Arkansas Lottery Commission Legislative Oversight Committee shall provide the commission with its review as to the propriety of the major procurement contract and each amendment or modification to a proposed or executed major procurement contract within thirty (30) days after receipt of the proposed major procurement contract or the amendment or modification to a proposed or executed major procurement contract.*

- The Arkansas Scholarship Act (Subchapter 2 – Arkansas Lottery Commission – 23-115-206) states, in part, the following:

*1. To ensure the financial integrity of lotteries, the Arkansas Lottery Commission shall:*

*(4) Notify the division of all known fraud or suspected fraud or all known or suspected illegal acts involving management or other employees of the commission or others with whom the commission contracts.*

*(5) Inform the division and the Chief Fiscal Officer of the State of any known material violations of the Arkansas Constitution, applicable statutes, rules, contracts, agreements, or grants.*

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

#### **Excerpts from the Arkansas Lottery Commission (ALC) Major Procurement Rules**

- Arkansas Lottery Commission Major Procurement Rules Section 5 – General Policies. (Subsection C. – Approval Required; Execution of Contracts.) states, in part, the following: *The Commission must approve each major procurement contract.*
- Arkansas Lottery Commission Major Procurement Rules Section 4 – Definitions. (Subsection B.) states the following: *“Commission” means the Arkansas Lottery Commission.*
- Arkansas Lottery Commission Major Procurement Rules Section 5 – General Policies. (Subsection F. – Contract.) states, in part, the following: *The purpose of a written contract is to embody, in writing, the complete agreement between parties. No terms shall be left to an unwritten understanding.*
- Arkansas Lottery Commission Major Procurement Rules Section 5 – General Policies. (Subsection G. – Contract Amendment.) states the following:

*A contract amendment is a written document that changes, adds, or deletes one or more terms or conditions of an existing contract. During the course of the performance of a contract, it may become necessary to change, add to, or delete from the terms and conditions of the contract.*

- i. *A contract amendment shall clearly detail the additions, deletions, and modifications to the subject contract.*
- ii. *The Commission may enter into a contract amendment with respect to a major procurement contract if the Director determines any or all of the following: (A) the contract amendment is within the original scope of work and within the intent and purpose of the applicable major procurement contract, (B) the contract amendment is a logical extension to the original scope of work of the applicable major procurement contract, or (C) if entered into as a stand-alone contract, such contract would not constitute a major procurement contract.*



## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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- Arkansas Lottery Commission Major Procurement Rules Section 4 – Definitions. (Subsection E.) states, in part, the following: *A “Major Procurement Contract” means a contract for a gaming product or service costing more than seventy-five thousand dollars (\$75,000).*
- Arkansas Lottery Commission Major Procurement Rules Section 5 – General Policies. (Subsection L. – Purchase Order or Contract Required.) states the following:

*Any vendor or other person who manufactures or delivers a product or service without a written purchase order or contract or who delivers a product or service not specifically authorized by a purchase order or contract does so at the vendor’s (or other person’s) own risk. Under no conditions shall the Commission be liable for payment of any type for any product or service provided by a vendor or other person, even such provided in good faith, which is not specifically authorized by a purchase order or contract.*
- Arkansas Lottery Commission Major Procurement Rules Section 6. – General Provisions. (Subsection C. – Major Procurement Contracts to be Competitively Bid.) states the following:

*Except as provided at subsections (6)(A)(i) (Sole Source Procurements) and (6)(A)(ii) (Emergency Purchases) of these Rules, all major procurement contracts shall be competitively bid in accordance with the provisions of these Rules.*

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

- Arkansas Lottery Commission Major Procurement Rules Section 6. – General Provisions. (Subsection D. – Procedures Regarding Submissions.) states, in part, the following:
  - i. *The Commission is committed to a competitive procurement process that maintains the highest level of integrity.*
  - ii. *All bids, offers, quotes or proposals and the contracts resulting from solicitations are subject to the requirements of and must comply with the Act, regardless of whether or not specifically addressed in either the solicitations or the proposal. All potential vendors shall read and be familiar with the Act, a copy of which may be obtained through a link on the Commission’s web site.*
  - x. *A submitted proposal may be modified or withdrawn by written notice received by the Commission at any time prior to the submission deadline.*
- Arkansas Lottery Commission Major Procurement Rules Section 4 – Definitions. (Subsection A.) states the following: “Act” means the Arkansas Scholarship Lottery Act.

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

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#### **SUBJECT TO CHANGE**

- Arkansas Lottery Commission Major Procurement Rules Section 7. – Procurement Methods. (Subsection F. – Contractual Award and Agreement.) states, in part, the following:
- i. *Each major procurement contract shall be awarded by the Commission by prompt written notice to the responsible and responsive vendor pursuant to a solicitation whose bid, offer, quote or proposal represents the best value to the Commission and offers what the Commission believes will result in the greatest long-term benefit to the State of Arkansas, the greatest integrity for the Commission, and the best services and products for the public. The Commission shall also publish notice of the intent to award on the Commission’s website.*
  - ii. *The delivery of a Commission purchase order or a notice of major procurement contract award for term contracts which require vendor signature with the valid signature of the Director constitutes acceptance of the offer to sell and consummates the binding contractual agreement.*

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#### **SUBJECT TO CHANGE**

#### **Excerpts from the Arkansas Lottery Commission Request for Proposal (RFP) – Instant Ticket Lottery Game Services**

- Vendors are subject to all requirements of the Arkansas Lottery Commission Major Procurement Rules, whether such requirements are specifically set forth in this RFP or not (Page 3).
- Instant Ticket Lottery Game Services Request for Proposal (RFP) Section 1. – General Information (Subsection 1.26 – Cost) states, in part, the following:

*All charges must be included on the Official Proposal Price Sheets, must be valid for one hundred eighty (180) days following proposal opening, and shall be included in the costing evaluation. The pricing must include all associated cost for the service being bid.*

#### NOTE:

1. *The ALC will not be obligated to pay any costs not identified on the Official Proposal Price Sheet.*
2. *Any cost not identified by the Vendor but subsequently incurred in order to achieve successful operation will be borne by the Vendor.*
3. *Official Proposal Price Sheets may be reproduced as needed.*
4. *Vendors may expand items to identify all proposed services. A separate listing, which must include pricing, may be submitted with summary pricing.*

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#### **SUBJECT TO CHANGE**

- Instant Ticket Lottery Game Services Request for Proposal (RFP) Section 3. – Instant Ticket Operations (Subsection 3.7 – Distribution of Tickets From Other Vendors) states the following:

*The Successful Vendor may be required, up to seven (7) times a year, to package, warehouse, and distribute up to seven (7) instant ticket games per year purchased by the ALC from other Vendors, which will include as part of their bid price up to three (3) licensed properties of the ALC choice each year of the contract. If the ALC does not elect to use any or all of the licensed properties in any given year of the contract, usage will not roll over to subsequent years. These tickets will be distributed along with the Successful Vendor’s tickets, and the Successful Vendor will not be reimbursed for warehousing and distributing these tickets, nor will they be paid a percentage of sales, when the tickets are sold.*

- Instant Ticket Lottery Game Services Request for Proposal (RFP) Section 5. – Evaluation Criteria for Selection (Subsection 5.1 – Cost) states, in part, the following:

#### Pricing Formula (5.1.1)

*The method of compensation that will be utilized is a percentage of total Net Sales achieved by the ALC during the term of the Contract. A Vendor must state the percentage of total sales required for compensation to accomplish the tasks specified in the Proposal. **Bidders must include all pricing information on the Official Price Proposal Sheet and must clearly mark said page(s) as pricing information.***

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications & “Properties Plus”

**DRAFT – DOCUMENT IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT’S REVIEW PROCESS. ADDITIONAL SECTIONS MAY BE ADDED.**

#### **SUBJECT TO CHANGE**

- Instant Ticket Lottery Game Services Request for Proposal (RFP) Section 5. – Evaluation Criteria for Selection (Subsection 5.4 – Program Options) states, in part, the following:

*As part of the basic compensation that has been proposed by the Successful Vendor, all items represented in the Proposal must be provided for unless specifically identified as options. If programs, equipment or services represented in the Proposal are not clearly indicated as options, the ALC will rightfully assume that the cost is included in the percentage of sales quotation in the Proposal.*

## Arkansas Scholarship Lottery Internal Audit Presentation

### Scientific Games Contract

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### Preliminary Work

- Workpapers are not complete (Draft)
- Have not gone through review process
- All schedules and narratives are SUBJECT TO CHANGE

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### Preliminary Work

- Schedules were provided for review to:
  - Lottery Management
  - Scientific Games before negotiation meeting (Lottery Management)
  - Scientific Games during negotiation meeting

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### Preliminary Work

- Every effort has been made to ensure the preliminary numbers are correct
- Audit is ongoing
- Additional information provided could result in changes to current figures

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### Clearing of Legislative Audit's Finding 2010-2

- Legislative Audit's recommendation was that the Lottery ensures compliance with State law by submitting appropriate documents for review by the Arkansas Lottery Commission Oversight Committee (LOC)
- See LOC letter dated 12/14/2010

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### Clearing of Legislative Audit's Finding 2010-2

- Internal Audit's work was based on compliance of submitting documents to the LOC for review
- When corrective action was taken to ensure the Lottery was in compliance with the LOC letter, the finding was cleared

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### Clearing of Legislative Audit's Finding 2010-2

- The issues that are currently being discussed came up as a part of a detailed compliance audit of the contract

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### Contract Modifications and Property Plus License Fees and Merchandise

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### Contract Modifications Timeline

- July 29, 2009
  - Scientific Games Official Proposal Price Sheet submitted
    - Attachment A
- August 5, 2009
  - The ALC approves Intent to Award contract to Scientific Games
    - Attachment C
- August 13, 2009
  - The LOC reviews contract awarded to Scientific Games
    - Attachment D

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### Contract Modifications Timeline

- August 18, 2009
  - The contract awarded to Scientific Games is executed
    - Attachment E
- August 19, 2009
  - Order Price Confirmation prepared for first four games indicates pricing of 1.15% of sales
    - Attachment F

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### Contract Modifications Timeline

- August 25, 2009
  - The Recital of Selected Options document is prepared by Scientific Games
    - Attachment G
  - The Recital of Selected Options document is signed by former Lottery Director
    - Attachment G

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### Contract Modifications Timeline

- August 31, 2009
  - The Recital of Selected Options document is signed by Scientific Games
    - Attachment G
- October 2, 2009
  - Post Executed Change revises pricing to 1.92% of sales
    - Attachment I

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- Change #1 – Pricing
  - Attachment A
  - Attachment G
  - Schedule 5
  - The Arkansas Lottery selected “Properties Plus”

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- |   |  |
|---|--|
| • Official Price Sheet  | • Recital of Select Options  |
| – Attachment A  | – Attachment G   |
| – Approved by ALC   | – Quotes rates:  |
| – Reviewed by LOC   | <ul style="list-style-type: none"> <li>• 1.92% of net sales</li> <li>• 1.5% of prize fund</li> </ul> |
| – Quotes rates:   |  |
| <ul style="list-style-type: none"> <li>• 1.15% of net sales</li> <li>• 2.3078% of prize fund</li> </ul> |  |

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- The payments for “Properties Plus” are for the prize fund
  - Attachment J
- Per former and current Lottery management the only additional services received from Scientific Games is Tel-Sell Operations
- Tel-Sell will be discussed later

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

– Schedule 5

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- Change #2 – Failsafe
  - See Narrative
    - Page 7 of 20
- Change #3 – Tel-Sell Operations
  - See Narrative
    - Page 8 of 20
- Change #4 – Delivery of POS Materials
  - See Narrative
    - Page 8 of 20

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- Change #5 – Exclusive Printer
- The Recital of Selected Options (Attachment G) included the following:
 

*"All prices are based upon Scientific Games being the exclusive instant ticket provider throughout the entire term of the contract."*

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- The RFP allowed other printing vendors up to 7 times per year
  - Attachment M
- Exclusive instant ticket printer was not an invited option in the Official Price Proposal
  - Attachment A

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- Scientific Games considered other printers would be utilized in their proposal
  - Attachment M
- Exclusive printer guarantees Scientific Games additional revenues
  - Lottery relinquished ability to utilize other printers

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- Internal Audit has the following concerns:
  - How did this benefit the Arkansas Lottery?
  - What if another printer had a game that would be successful in Arkansas?
  - What if another printer would produce instant games at a lower cost?

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- Selected Reference Information

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- ALC Instant Ticket Lottery Game Service RFP (page 3)
  - See Narrative
    - Page 18 of 20
- ALC Major Procurement Rules Section 5 Subsection G
  - See Narrative
    - Page 14 of 20

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- ALC Major Procurement Rules Section 5 Subsection L
  - See Narrative
    - Page 15 of 20
- ALC Major Procurement Rules Section 6 Subsection D (ii)
  - See Narrative
    - Page 16 of 20

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**Contract Modifications  
(Recital of Selected Options)  
Five Changes**

- The Arkansas Scholarship Act Subchapter 7 (23-115-701 (e)(1))
  - See Narrative
    - Page 13 of 20

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**Properties Plus License Fees  
and Merchandise**

- "Properties Plus" Language

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**Properties Plus License Fees and  
Merchandise**

- Narrative
  - Page 12 of 20
- Attachment A
  - Page 14 of 22
- Attachment J
- Schedule 6

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# Arkansas Scholarship Lottery Internal Audit Presentation

Scientific Games Contract



# Preliminary Work

- Workpapers are not complete (Draft)
- Have not gone through review process
- All schedules and narratives are SUBJECT TO CHANGE

# Preliminary Work

- Schedules were provided for review to:
  - Lottery Management
  - Scientific Games before negotiation meeting (Lottery Management)
  - Scientific Games during negotiation meeting

# Preliminary Work

- Every effort has been made to ensure the preliminary numbers are correct
- Audit is ongoing
- Additional information provided could result in changes to current figures

# Clearing of Legislative Audit's Finding 2010-2

- Legislative Audit's recommendation was that the Lottery ensures compliance with State law by submitting appropriate documents for review by the Arkansas Lottery Commission Oversight Committee (LOC)
- See LOC letter dated 12/14/2010

# Clearing of Legislative Audit's Finding 2010-2

- Internal Audit's work was based on compliance of submitting documents to the LOC for review
- When corrective action was taken to ensure the Lottery was in compliance with the LOC letter, the finding was cleared

# Clearing of Legislative Audit's Finding 2010-2

- The issues that are currently being discussed came up as a part of a detailed compliance audit of the contract

# Contract Modifications and Property Plus License Fees and Merchandise

# Contract Modifications Timeline

- July 29, 2009
  - Scientific Games Official Proposal Price Sheet submitted
    - Attachment A
- August 5, 2009
  - The ALC approves Intent to Award contract to Scientific Games
    - Attachment C
- August 13, 2009
  - The LOC reviews contract awarded to Scientific Games
    - Attachment D



# Contract Modifications Timeline

- August 18, 2009
  - The contract awarded to Scientific Games is executed
    - Attachment E
- August 19, 2009
  - Order Price Confirmation prepared for first four games indicates pricing of 1.15% of sales
    - Attachment F

# Contract Modifications Timeline

- August 25, 2009
  - The Recital of Selected Options document is prepared by Scientific Games
    - Attachment G
  - The Recital of Selected Options document is signed by former Lottery Director
    - Attachment G

# Contract Modifications Timeline

- August 31, 2009
  - The Recital of Selected Options document is signed by Scientific Games
    - Attachment G
- October 2, 2009
  - Post Executed Change revises pricing to 1.92% of sales
    - Attachment I

# Contract Modifications

## (Recital of Selected Options)

### Five Changes

- Change #1 – Pricing
  - Attachment A
  - Attachment G
  - Schedule 5
  - The Arkansas Lottery selected “Properties Plus”

# Contract Modifications

## (Recital of Selected Options)

### Five Changes

- Official Price Sheet
  - Attachment A
  - Approved by ALC
  - Reviewed by LOC
  - Quotes rates:
    - 1.15% of net sales
    - 2.3078% of prize fund
- Recital of Select Options
  - Attachment G
  - Quotes rates:
    - 1.92% of net sales
    - 1.5% of prize fund

# Contract Modifications (Recital of Selected Options) Five Changes

- The payments for “Properties Plus” are for the prize fund
  - Attachment J
- Per former and current Lottery management the only additional services received from Scientific Games is Tel-Sell Operations
- Tel-Sell will be discussed later

# Contract Modifications (Recital of Selected Options) Five Changes

— Schedule 5

# Contract Modifications

## (Recital of Selected Options)

### Five Changes

- Change #2 – Failsafe
  - See Narrative
    - Page 7 of 20
- Change #3 – Tel-Sell Operations
  - See Narrative
    - Page 8 of 20
- Change #4 – Delivery of POS Materials
  - See Narrative
    - Page 8 of 20



# Contract Modifications (Recital of Selected Options) Five Changes

- Change #5 – Exclusive Printer
- The Recital of Selected Options (Attachment G) included the following:

*“All prices are based upon Scientific Games being the exclusive instant ticket provider throughout the entire term of the contract.”*

# Contract Modifications

## (Recital of Selected Options)

### Five Changes

- The RFP allowed other printing vendors up to 7 times per year
  - Attachment M
- Exclusive instant ticket printer was not an invited option in the Official Price Proposal
  - Attachment A

# Contract Modifications

## (Recital of Selected Options)

### Five Changes

- Scientific Games considered other printers would be utilized in their proposal
  - Attachment M
- Exclusive printer guarantees Scientific Games additional revenues
  - Lottery relinquished ability to utilize other printers

# Contract Modifications (Recital of Selected Options) Five Changes

- Internal Audit has the following concerns:
  - How did this benefit the Arkansas Lottery?
  - What if another printer had a game that would be successful in Arkansas?
  - What if another printer would produce instant games at a lower cost?

# Contract Modifications (Recital of Selected Options) Five Changes

- Selected Reference Information

# Contract Modifications

## (Recital of Selected Options)

### Five Changes

- ALC Instant Ticket Lottery Game Service RFP (page 3)
  - See Narrative
    - Page 18 of 20
- ALC Major Procurement Rules Section 5 Subsection G
  - See Narrative
    - Page 14 of 20

# Contract Modifications

## (Recital of Selected Options)

### Five Changes

- ALC Major Procurement Rules Section 5 Subsection L
  - See Narrative
    - Page 15 of 20
- ALC Major Procurement Rules Section 6 Subsection D (ii)
  - See Narrative
    - Page 16 of 20

# Contract Modifications (Recital of Selected Options)

## Five Changes

- The Arkansas Scholarship Act Subchapter 7 (23-115-701 (e)(1))
  - See Narrative
  - Page 13 of 20



# Properties Plus License Fees and Merchandise

- “Properties Plus” Language

# Properties Plus License Fees and Merchandise

- Narrative
  - Page 12 of 20
- Attachment A
  - Page 14 of 22
- Attachment J
- Schedule 6

**Arkansas Lottery Commission – Internal Audit**

**Instant Ticket Lottery Game Services Contract Modifications Timeline**

**DRAFT – DOCUMENT IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS. ADDITIONAL SECTIONS MAY BE ADDED.**

**July 29, 2009**

- Scientific Games submits Official Proposal Price Sheet for the Arkansas Lottery Commission Instant Ticket Lottery Game Services Request for Proposal (RFP).

**August 5, 2009**

- Scientific Games' Official Proposal Price Sheet is provided by Arkansas Scholarship Lottery Management to the Arkansas Lottery Commission. The Arkansas Lottery Commission unanimously approves the Intent to Award the Instant Ticket Lottery Game Services Contract to Scientific Games.

**August 13, 2009**

- Scientific Games' Official Proposal Price Sheet is provided by Arkansas Scholarship Lottery Management to the Arkansas Legislative Lottery Oversight Committee. The Arkansas Legislative Lottery Oversight Committee reviews the Instant Ticket Lottery Game Services Contract awarded to Scientific Games.

**August 18, 2009**

- The Instant Ticket Lottery Game Services Contract awarded to Scientific Games is executed. The Official Proposal Price Sheet offers two options (1.75% of instant ticket sales or 1.15% of instant ticket sales and the implementation of "Properties Plus" at the rate of 2.3078% of the prize fund for all tickets regardless of which vendor prints the tickets).

## Arkansas Lottery Commission – Internal Audit

### Instant Ticket Lottery Game Services Contract Modifications Timeline

**DRAFT – DOCUMENT IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS. ADDITIONAL SECTIONS MAY BE ADDED.**

#### **August 19, 2009**

- Arkansas Lottery Commission Chair, Ray Thornton, announces at the Arkansas Lottery Commission meeting that the Instant Ticket Contract has been executed.
- Scientific Games prepares the Order/Price Confirmations for the first four Arkansas Scholarship Lottery instant ticket games. The Order/Price Confirmations indicate that the final invoice will be based on a percentage of sales at a rate of 1.15%. This signifies the "Properties Plus" pricing option from the Official Proposal Price Sheet has been selected.

#### **August 25, 2009**

- Scientific Games (Martha Hernandez) and Arkansas Scholarship Lottery Management (David Barden) sign the Order/Price Confirmations for the first four Arkansas Scholarship Lottery instant ticket games indicating the pricing will be 1.15% of sales.
- The Recital of Selected Options document is prepared by Scientific Games. The document states the following: "Revisions to Original Pricing Schedule (Dated July 29, 2009) between the Arkansas Lottery Commission and Scientific Games International Agreement for Additional Service Options and Fees." The Recital of Selected Options increases the cost of the Instant Ticket Lottery Game Services Contract based on sales from 1.15% to 1.92%. The amount allocated to the "Properties Plus" program is reduced from 2.3078% of the prize fund to 1.5% of the prize fund. The Recital of Selected Options also selects the "invited option" Failsafe, states that Tel-Sell operations are to be provided by Scientific Games, and makes Scientific Games the exclusive instant ticket provider throughout the entire term of the contract.

## Arkansas Lottery Commission – Internal Audit

## Instant Ticket Lottery Game Services Contract Modifications Timeline

**DRAFT – DOCUMENT IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS. ADDITIONAL SECTIONS MAY BE ADDED.**

- The Recital of Selected Options document is signed by Arkansas Lottery Management (Ernie Passailaigue).

*Internal Audit could not find evidence that the contract modifications were presented by Arkansas Scholarship Lottery Management to the Arkansas Lottery Commission for approval as required by the Arkansas Lottery Commission Major Procurement Rules. In addition, Internal Audit could not find evidence that the contract modifications were presented by Arkansas Scholarship Lottery Management to the Arkansas Legislative Lottery Oversight Committee for review as required by the Arkansas Scholarship Lottery Act.*

**August 31, 2009**

- Scientific Games' Senior Vice President, James C. Kennedy, signs the Recital of Selected Options.

**October 2, 2009**

- A Post Executed Change (PEC) is created by Scientific Games for each of the first four Arkansas Scholarship Lottery instant ticket games to "revise the contract pricing". The PEC is requested by Toben Molica and created by Martha Hernandez.
- Arkansas Scholarship Lottery Management (David Barden) signs the revised Order/Price Confirmations for the first four Arkansas Scholarship Lottery instant ticket games increasing the pricing of the games from 1.15% of instant ticket sales to 1.92% of instant ticket sales.

Monday, March 19, 2012

**Arkansas Lottery Commission - Internal Audit**  
**Analysis of Instant Ticket Lottery Game Services Contract Revisions - Pricing**  
**Fiscal Year 2010 (September 28, 2009 - June 30, 2010)**

Schedule 2

**(DRAFT - INFORMATION IS PRELIMINARY, INCOMPLETE, AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS)**  
**SUBJECT TO CHANGE**

	Original Pricing 8/18/2009 <i>Attachment A (3 of 22)</i>	Revised Pricing 8/25/2009 <i>Attachment G (1 of 2)</i>	Change In Pricing	
<i>Cost Based on Percent of Sales</i>				
Instant Ticket Sales (Net Settlements) - FY 2010	\$ 324,641,494.00	\$ 324,641,494.00		
Instant Ticket Lottery Game Services Percentage	1.15%	1.92%	0.77%	
Total Cost Based on Percent of Sales - FY 2010	3,733,377.18	6,233,116.68	\$ 2,499,739.50	66.96%
<i>Cost Based on Percent of Prize Fund (See NOTE 1)</i>				
Instant Ticket Sales (Net Settlements) - FY 2010	324,641,494.00	324,641,494.00		
Average Prize Fund Percent - FY 2010	67.935876%	67.935876%		
Prize Fund Based on Instant Ticket Sales (Net Settlements) - FY 2010	220,548,042.81	220,548,042.81		
Properties Plus/Points for Prizes Percent	2.3078%	1.5000%	-0.8078%	
Total Cost Based on Percent of Prize Fund	5,089,807.73	3,308,220.64	\$ (1,781,587.09)	-35.00%
Total Cost of Instant Ticket Game Services & "Properties Plus" Based on Percentages - FY 2011	<u>\$ 8,823,184.91</u>	<u>\$ 9,541,337.33</u>	<u>\$ 718,152.41</u>	8.14%
<i>Reconciliation - Difference in Pricing - Fiscal Year 2010 (See NOTE 1)</i>				
Net Lottery Proceeds (Scholarships)			\$ 718,152.41	
"Properties Plus" Program (Prize Fund)			<u>1,781,587.09</u>	
<b>Total Difference in Pricing - FY 2010</b>			<u><b>\$ 2,499,739.50</b></u>	

**NOTE 1** - The average prize fund percent is based on using the the Properties Plus/Points for Prizes percent (1.5%) included in the revised pricing document The Recital of Selected Options which is currently being utilized for this program. If the 2.3078% was being used, the average prize fund percent would increase. This would decrease the amount applied to the Net Lottery Proceeds and increase the amount applied to the "Properties Plus" program. The total difference in pricing will not be affected.

**NOTE 2** - This Schedule was provided to Arkansas Scholarship Lottery (ASL) Management for review and the feedback that was received was implemented by Internal Audit. ASL Management provided the documents to Scientific Games Representatives for review and no feedback or comments were received by Internal Audit.

**DRAFT - INFORMATION IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS**

Monday, March 19, 2012

**Arkansas Lottery Commission - Internal Audit**  
**Analysis of Instant Ticket Lottery Game Services Contract Revisions - Pricing**  
**Fiscal Year 2011 (July 1, 2010 - June 30, 2011)**

Schedule 3

**(DRAFT - INFORMATION IS PRELIMINARY, INCOMPLETE, AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS)**  
**SUBJECT TO CHANGE**

	<b>Original Pricing 8/18/2009 <i>Attachment A (3 of 22)</i></b>	<b>Revised Pricing 8/25/2009 <i>Attachment G (1 of 2)</i></b>	<b>Change In Pricing</b>	
<hr/> <i>Cost Based on Percent of Sales</i> <hr/>				
Instant Ticket Sales (Net Settlements) - FY 2011	\$ 388,119,206.00	\$ 388,119,206.00		
Instant Ticket Lottery Game Services Percentage	1.15%	1.92%	0.77%	
Total Cost Based on Percent of Sales - FY 2011	4,463,370.87	7,451,888.76	\$ 2,988,517.89	66.96%
<hr/> <i>Cost Based on Percent of Prize Fund (See NOTE 1)</i> <hr/>				
Instant Ticket Sales (Net Settlements) - FY 2011	388,119,206.00	388,119,206.00		
Average Prize Fund Percent - FY 2011	71.650846%	71.650846%		
Prize Fund Based on Instant Ticket Sales (Net Settlements) - FY 2011	278,090,694.59	278,090,694.59		
Properties Plus/Points for Prizes Percent	2.3078%	1.5000%	-0.8078%	
Total Cost Based on Percent of Prize Fund	6,417,777.05	4,171,360.42	\$ (2,246,416.63)	-35.00%
Total Cost of Instant Ticket Game Services & "Properties Plus" Based on Percentages - FY 2011	<u>\$ 10,881,147.92</u>	<u>\$ 11,623,249.17</u>	<u>\$ 742,101.26</u>	6.82%
<hr/> <i>Reconciliation - Difference in Pricing - Fiscal Year 2011 (See NOTE 1)</i> <hr/>				
Net Lottery Proceeds (Scholarships)			\$ 742,101.26	
"Properties Plus" Program (Prize Fund)			2,246,416.63	
<b>Total Difference in Pricing - FY 2011</b>			<u><b>\$ 2,988,517.89</b></u>	

**NOTE 1** - The average prize fund percent is based on using the the Properties Plus/Points for Prizes percent (1.5%) included in the revised pricing document The Recital of Selected Options which is currently being utilized for this program. If the 2.3078% was being used, the average prize fund percent would increase. This would decrease the amount applied to the Net Lottery Proceeds and increase the amount applied to the "Properties Plus" program. The total difference in pricing will not be affected.

**NOTE 2** - This Schedule was provided to Arkansas Scholarship Lottery (ASL) Management for review and the feedback that was received was implemented by Internal Audit. ASL Management provided the documents to Scientific Games Representatives for review and no feedback or comments were received by Internal Audit.

**DRAFT - INFORMATION IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS**

Monday, March 19, 2012

**Arkansas Lottery Commission - Internal Audit**  
**Analysis of Instant Ticket Lottery Game Services Contract Revisions - Pricing**  
**Fiscal Year 2012 (July 1, 2011 - February 29, 2012)**

Schedule 4

**(DRAFT - INFORMATION IS PRELIMINARY, INCOMPLETE, AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS)**  
**SUBJECT TO CHANGE**

	<b>Original Pricing 8/18/2009 <u>Attachment A (3 of 22)</u></b>	<b>Revised Pricing 8/25/2009 <u>Attachment G (1 of 2)</u></b>	<b>Change In Pricing</b>	
<i>Cost Based on Percent of Sales</i>				
Instant Ticket Sales (Net Settlements) - FY 2012	\$ 261,213,409.00	\$ 261,213,409.00		
Instant Ticket Lottery Game Services Percentage	1.15%	1.92%	0.77%	
Total Cost Based on Percent of Sales - FY 2012	3,003,954.20	5,015,297.45	\$ 2,011,343.25	66.96%
<i>Cost Based on Percent of Prize Fund (See NOTE 1)</i>				
Instant Ticket Sales (Net Settlements) - FY 2012	261,213,409.00	261,213,409.00		
Average Prize Fund Percent - FY 2012	72.013776%	72.013776%		
Prize Fund Based on Instant Ticket Sales (Net Settlements) - FY 2012	188,109,639.24	188,109,639.24		
Properties Plus/Points for Prizes Percent	2.3078%	1.5000%	-0.8078%	
Total Cost Based on Percent of Prize Fund	4,341,194.25	2,821,644.59	(1,519,549.67)	-35.00%
Total Cost of Instant Ticket Game Services & "Properties Plus" Based on Percentages - FY 2012	<u>\$ 7,345,148.46</u>	<u>\$ 7,836,942.04</u>	<u>\$ 491,793.58</u>	6.70%
<i>Reconciliation - Difference in Pricing - Fiscal Year 2012 (See Note 1)</i>				
Net Lottery Proceeds (Scholarships)			\$ 491,793.58	
"Properties Plus" Program (Prize Fund)			1,519,549.67	
<b>Total Difference in Pricing - FY 2012</b>			<u><b>\$ 2,011,343.25</b></u>	

**NOTE 1** - The average prize fund percent is based on using the the Properties Plus/Points for Prizes percent (1.5%) included in the revised pricing document The Recital of Selected Options which is currently being utilized for this program. If the 2.3078% was being used, the average prize fund percent would increase. This would decrease the amount applied to the Net Lottery Proceeds and increase the amount applied to the "Properties Plus" program. The total difference in pricing will not be affected.

**NOTE 2** - This Schedule was provided to Arkansas Scholarship Lottery (ASL) Management for review and the feedback that was received was implemented by Internal Audit. ASL Management provided the documents to Scientific Games Representatives for review and no feedback or comments were received by Internal Audit.

**DRAFT - INFORMATION IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS**



Monday, March 19, 2012

**Arkansas Lottery Commission - Internal Audit**  
**Analysis of Instant Ticket Lottery Game Services Contract Revisions - Pricing**  
**September 29, 2009 - February 29, 2012**

Schedule 5

**(DRAFT - INFORMATION IS PRELIMINARY, INCOMPLETE, AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS)**  
**SUBJECT TO CHANGE**

	Original Pricing 8/18/2009 <i>Attachment A (3 of 22)</i>	Revised Pricing 8/25/2009 <i>Attachment G (1 of 2)</i>	Change In Pricing
<u>Cost Based on Percent of Sales</u>			
Instant Ticket Sales (Net Settlements)	\$ 973,974,109.00	\$ 973,974,109.00	
Instant Ticket Lottery Game Services Percentage	1.15%	1.92%	0.77%
Total Cost Based on Percent of Sales	11,200,702.25	18,700,302.89	\$ 7,499,600.64
<u>Cost Based on Percent of Prize Fund (See NOTE 1)</u>			
Instant Ticket Sales (Net Settlements)	973,974,109.00	973,974,109.00	
Average Prize Fund Percent	70.509921%	70.509921%	
Prize Fund Based on Instant Ticket Sales (Net Settlements)	686,748,374.82	686,748,374.82	
Properties Plus/Points for Prizes Percent	2.3078%	1.5000%	-0.8078%
Total Cost Based on Percent of Prize Fund	15,848,778.99	10,301,225.62	(5,547,553.37)
Total Cost of Instant Ticket Game Services & "Properties Plus" Based on Percentages	<u>\$ 27,049,481.25</u>	<u>\$ 29,001,528.52</u>	<u>\$ 1,952,047.27</u>
<u>Reconciliation - Difference in Pricing September 29, 2009 - February 29, 2012 (See NOTE 1)</u>			
Net Lottery Proceeds (Scholarships)			\$ 1,952,047.27
"Properties Plus" Program (Prize Fund)			5,547,553.37
<b>Total Difference in Pricing as of February 29, 2012</b>			<b><u>\$ 7,499,600.64</u></b>
<u>Projected Difference in Pricing Over the Life of the Instant Ticket Lottery Game Services Contract (See NOTE 1)</u>			
	<b>Net Lottery Proceeds</b>	<b>"Properties Plus"</b>	<b>Total</b>
Total Difference in Pricing as of February 29, 2012	\$ 1,952,047.27	\$ 5,547,553.37	\$ 7,499,600.64
Number of Months To-Date	29	29	29
Average Amount of Difference Per Month	67,311.97	191,294.94	258,606.92
Number of Months in Instant Ticket Lottery Game Services Contract (7 Years)	84	84	84
<b>Projected Difference in Pricing Over the Life of the Contract</b>	<b><u>\$ 5,654,205.48</u></b>	<b><u>\$ 16,068,774.96</u></b>	<b><u>\$ 21,722,981.28</u></b>

**NOTE 1** - The average prize fund percent is based on using the the Properties Plus/Points for Prizes percent (1.5%) included in the revised pricing document The Recital of Selected Options which is currently being utilized for this program. If the 2.3078% was being used, the average prize fund percent would increase. This would decrease the amount applied to the Net Lottery Proceeds and increase the amount applied to the "Properties Plus" program. The total difference in pricing will not be affected.

**NOTE 2** - This Schedule was provided to Arkansas Scholarship Lottery (ASL) Management for review and the feedback that was received was implemented by Internal Audit. ASL Management provided the documents to Scientific Games Representatives for review and no feedback or comments were received by Internal Audit.

**DRAFT - INFORMATION IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS**

## Analysis of the Instant Ticket Lottery Game Services Contract - "Properties Plus"

Fiscal Year 2010 (September 29, 2009) - Fiscal Year 2012 (February 29, 2012)

(DRAFT - INFORMATION IS PRELIMINARY, INCOMPLETE, AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS)

SUBJECT TO CHANGE

	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Totals
<b>License Fees Paid by the Arkansas Scholarship Lottery (See NOTE 1)</b>				
License Fees - Price Is Right	\$ 308,281.08	\$ 83,907.08		\$ 392,188.16
Price is Right Trips Paid Out of Licensing Fees - Valued at \$10,000 Each	(70,000.00)	(50,000.00)		(120,000.00)
License Fees - Wheel of Fortune			\$ 370,074.37	370,074.37
Wheel of Fortune Trips Paid Out of Licensing Fees - Valued at \$12,500 Each			(37,500.00)	(37,500.00)
Total License Fees Paid to Scientific Games	238,281.08	33,907.08	332,574.37	604,762.53
<b>Merchandise Purchased by the Arkansas Scholarship Lottery (See NOTE 1)</b>				
Merchandise - World Poker Tour	30,000.00	30,000.00		60,000.00
Merchandise - Monopoly		40,000.00	20,000.00	60,000.00
Merchandise - Harley Davidson (See NOTE 2)		80,000.00		80,000.00
Total Merchandise Purchased from Scientific Games	30,000.00	150,000.00	20,000.00	200,000.00
<b>Total License Fees Paid and Merchandise Purchased</b>	<b>\$ 268,281.08</b>	<b>\$ 183,907.08</b>	<b>\$ 352,574.37</b>	<b>\$ 804,762.53</b>

Projected License Fees and Merchandise Purchases Additional Cost Over the Life of the Instant Ticket Lottery Game Services Contract

	Net Lottery Proceeds
Total License Fees Paid and Merchandise Purchased September 29, 2009 - February 29, 2012	\$ 804,762.53
Number of Months To-Date	29
Average Amount of Difference Per Month	27,750.43
Number of Months in Instant Ticket Lottery Game Services Contract (7 Years)	84
<b>Projected Additional Cost Over the Life of the Contract</b>	<b>\$ 2,331,036.12</b>

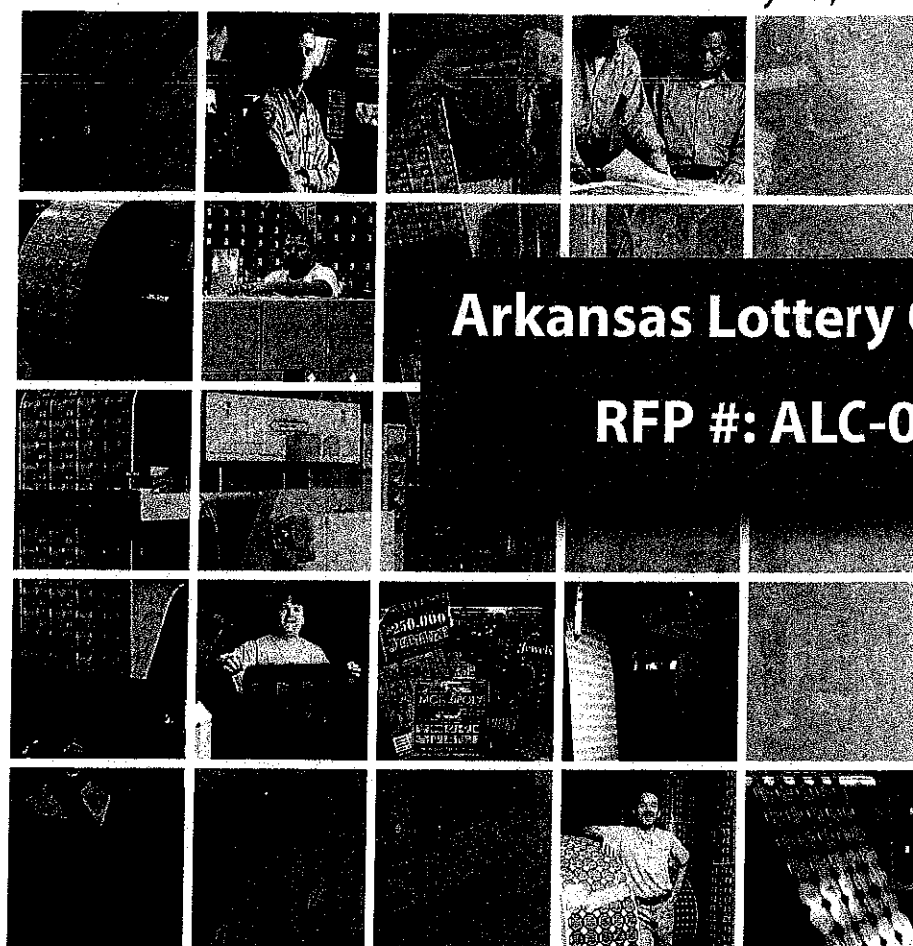
**NOTE 1** - The Official Price Proposal Sheet (Attachment A - PAGE 14 of 22) states the following: "As a Properties Plus customer, the Lottery pays no license or royalty fees and nothing for the merchandise involved in a game, other than experiential prizes such as trips or grand prizes such as vehicles and motorcycles. All of this is included in the Properties Plus fee."

**NOTE 2** - Merchandise for the Harley Davidson Game does not include \$114,111.32 that the Arkansas Scholarship Lottery reimbursed Scientific Games for four (4) motorcycles.

**NOTE 3** - This Schedule was provided to Arkansas Scholarship Lottery (ASL) Management for review and the feedback that was received was implemented by Internal Audit. ASL Management provided the documents to Scientific Games Representatives for review and no feedback or comments were received by Internal Audit.

**DRAFT - INFORMATION IS PRELIMINARY AND HAS NOT BEEN THROUGH INTERNAL AUDIT'S REVIEW PROCESS**

July 29, 2009



## Arkansas Lottery Commission

**RFP #: ALC-090001**

**Instant Ticket  
Lottery Game  
Services**

**Official Proposal  
Price Sheet**

**Submitted to:**

Arkansas Lottery Commission  
500 President Clinton Ave., #215  
Little Rock, Arkansas 72201

**Submitted by:**

Scientific Games International, Inc.  
1500 Bluegrass Lakes Parkway  
Alpharetta, Georgia 30004

**Contact Person**

James C. Kennedy  
Senior Vice President  
Sales and Global Marketing  
Phone: 770-664-3700  
Fax: 678-624-4115  
[jim.kennedy@scientificgames.com](mailto:jim.kennedy@scientificgames.com)



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For more information, please contact:

Scientific Games International, Inc.

1500 Bluegrass Lakes Parkway

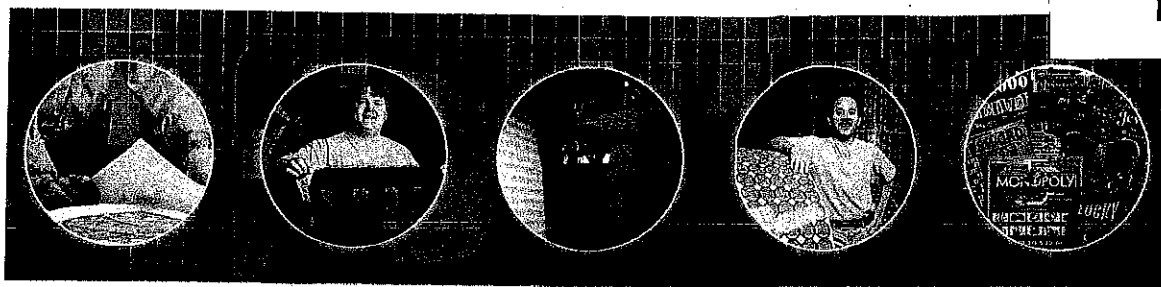
Alpharetta, GA 30004 USA

Phil Bauer

Vice President, Corporate Counsel and Assistant Secretary

Phone: 770-664-3700

Fax: 678-297-5118



## Official Proposal Price Sheet

### OFFICIAL PROPOSAL PRICE SHEET

The undersigned agrees to provide Instant Ticket Lottery Game Services to the Arkansas Lottery Commission in accordance with the Request for Proposal, and any amendments or addendums thereto for proposal no. ALC – ALC-090001. *Proposer is required to provide the percentage, in the format shown below, as well as to attach hereto an itemized listing of the pricing for each of the component parts and services that comprise the lump sum price.*

#### DESCRIPTION

#### PERCENTAGE

(Written in Words and Number)

\* Instant Ticket Lottery Game Services

1.7500% (one point seventy five percent) or 1.1500%\* (one point fifteen percent).

\* The price of 1.1500% requires the Lottery to implement "Properties Plus™" at the rate of 2.3078% of the prize fund for all tickets regardless of which vendor prints the tickets. "Properties Plus™" is funded solely from the Prize fund, and therefore is a zero net incremental cost to the Lottery.

### 1. BY SUBMISSION OF A PROPOSAL, THE PROPOSER CERTIFIES:

- 1.1 Prices in this proposal have been arrived at independently, without consultation, communication or agreement for the purpose of restricting competition.

Official Proposal Price Sheet

- 1.2 No attempt has been made nor will be by the proposer to induce any other person or firm to submit a proposal for the purpose of restricting competition.
- 1.3 The person signing this proposal certifies that he/she is authorized to represent the company and is legally responsible for the decision as to the price and supporting documentation provided as a result of this advertisement.
- 1.4 Proposer will comply with all Federal regulations, policies, guidelines, and requirements.
- 1.5 Prices in this proposal have not been knowingly disclosed by the proposer and will not be prior to award to any other proposer.

**2. GENERAL INFORMATION:**

Proposer Name: Scientific Games International, Inc. Phone: (770)664-3700

Fax: (678)624-4115

Mailing Address: 1500 Bluegrass Lakes Parkway

City: Alpharetta State: Georgia Zip: 30004

SSN/Employer Identification Number: 58-1943521

**3. OWNERSHIP AND CONTROL:**

Proposers Legal Structure:

\_\_\_\_\_ Sole Proprietorship \_\_\_\_\_ General Partnership

X  Corporation \_\_\_\_\_ Limited Partnership

\_\_\_\_\_ Limited Liability \_\_\_\_\_ Other \_\_\_\_\_

If Proposer is a sole proprietorship, list: *Not Applicable*

Owner Name: \_\_\_\_\_ Phone: ( ) \_\_\_\_\_

Mailing Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

SSN/Employer Identification Number: \_\_\_\_\_

Official Proposal Price Sheet

Beginning date as owner of sole proprietorship: \_\_\_\_\_

Provide the names of all individuals authorized to sign for the Proposer:

NAME (printed or typed)

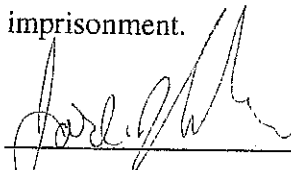
TITLE

James C. Kennedy

Senior Vice President, Sales & Global Marketing

**VERIFICATION**

I certify under penalty of perjury, that I am a responsible official (as identified above) for the business entity described above as Proposer, that I have personally examined and am familiar with the information submitted in this disclosure and all attachments, and that the information is true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including criminal sanctions, which can lead to imposition of a fine and/or imprisonment.



(Signature)

James C. Kennedy, Senior Vice President, Sales & Global Marketing

7-27-09

(Name and Title) (Typed or Printed)

(Date)

The components and services that comprise the percentage shown on the Proposal Price Sheet are:

- Marketing and Support Services
- Instant Ticket Printing
- Distribution and warehousing
- Instant ticket dispensers
- Distribution of instant tickets
- In special instances, delivery of other ALC materials such as point of sale material, game supplies, retailer manuals, and newsletters, per RFP section 3.9 as amended by the second addendum to the RFP dated July 15, 2009.

Official Proposal Price Sheet

Additionally priced options:

1. Scientific Games to provide the instant ticket inventory control system instead of the online vendor providing the system: 0.2725%
2. Substitute 6,000 twelve-game dispensers for the 36,000 two-game dispensers: 0.1750%
3. Tiered Price scale instead of flat fee %:
  - Fee for first \$225,000,000 of annual sales: 1.6500%
  - Fee for next \$75,000,000 of annual sales: 2.0500%
  - Fee for annual sales in excess of \$300,000,000: 2.7500%



Official Proposal Price Sheet

PRINTING AND SERVICE OPTIONS

INVITED OPTIONS	PRICE
Neon/Fluorescent display color:	Add \$.16 per sq. in. per 1,000 tickets.
Metallic display color: The basic ticket price does not include metallic ink. The price differential, applied to the basic ticket price, to include a non-precious, metallic ink (displays) to the ticket is as follows:	Add \$.16 per sq. in. per 1,000 tickets.
Color pulse (Ink pulse only):	Add \$2,500.00 per pulse.
SureMark™ Marking System:	Add \$4.50 per 1,000 tickets plus \$2,250.00 set-up charge.
Clearmark™ Marking System:	Add \$3.50 per 1,000 tickets.
Colormark™ Marking System:	Add \$1.50 per 1,000 tickets.
Additional scenes: The basic ticket prices assume display printing of one scene within any particular game. The price differential, applied to the basic ticket price, for additional scenes beyond one in a single pack is as follows:	Add \$1,000.00 per scene.
Printing of pack insert cards:	Negotiable based on insert specifications.
Insertion of furnished numbered pack insert cards: If the item being inserted bears a number that must be matched to the pack number, the price differential, applied to the basic ticket price, is as follows:	Add \$.45 per pack.
Insertion of furnished, non-numbered pack insert cards.	Add \$.30 per pack.
Scented tickets: The basic ticket price does not include tickets produced with an aromatic feature. The price differential, applied to the basic ticket price, to add this feature is as follows:	Add \$.50 per sq. in. of total ticket area per 1,000 tickets plus \$5,000.00 set-up.
Color Shifting Ink: The basic ticket price does not include the application of color shifting ink. The price differential, applied to the basic ticket price, to add this feature is as follows:	Prices and terms negotiable.
Cylinder/Plate Changes/Graphic Pulses: Press stop and plate changes required for graphic pulses:	Add \$1,500.00 per cylinder/plate change, plus \$2,500.00 per each press stop.
The basic ticket price assumes the tickets would be printed on standard 10-point, virgin paper stock, coated on one side (without the use of laminated foil). Additional price to substitute alternative stock is negotiable based on the specification of the alternate stock.	

Official Proposal Price Sheet

INVITED OPTIONS	PRICE
Programming of unusual or unique games: The basic ticket price assumes that games produced under the contract would be typical to the games currently run by the Lottery in respect to game programming. In the event an unusual or unique game is requested by the Lottery which requires unusual or excessive programming, the following additional charge per programming hour may apply:	\$200 per hour.
Stub feature: The basic ticket price does not include a stub feature. A vertical stub may be added to the ticket. The price differential, applied to the basic ticket price, to produce a game with a ticket stub is as follows:  The price differential, applied to the basic ticket price, to produce a ticket stub with a rub-off area is as follows:	Add \$.08 per square inch of the ticket per 1,000 tickets.  Add \$.16 per square inch of the ticket per 1,000 tickets.
Additional regular sized sample tickets: The basic ticket price assumes that a maximum of 2,500 actual size, voided sample tickets would be delivered with each game. The price differential beyond this number, assuming that the game does not include multiple scenes or varying colors during the production run, and that all games in the production run would have additional samples ordered, is as follows:	Negotiable price depending on ticket specifications.
Point-of-sale pieces: The basic ticket price assumes that no point-of-sale pieces would be required. The price differential for providing point-of-sale pieces is as follows:	Negotiable based on P.O.S specifications.
Oversize sample tickets: The basic ticket price assumes that no oversize sample tickets would be required. The price differential for providing oversize sample tickets is as follows:	Negotiable based on oversize sample specifications.
4-color process display printing on ticket back:	Add \$2.95 per 1,000 tickets, plus \$3,800.00 set-up.
Foil stock – not to exceed 10-point thickness:	Add \$.80 per sq. in. per 1,000 tickets.
Retailer games: The basic ticket price does not include retailer incentive games. Scientific Games can provide a variety of retailer incentive games such as mystery shopper, sales bonus programs, etc. Since a variety of possibilities exists for such games, the price differential for retailer incentive games is as follows:	Prices and terms negotiable.
Pouch tickets – including bar code and UPC: Due to the variable specifications for this item, pricing will be negotiated as needed.	Prices and terms negotiable.

Official Proposal Price Sheet

INVITED OPTIONS	PRICE
Holographic ticket stock:	Add \$3.40 per sq. in. of total ticket area per 1,000 tickets.
Liquid foil inks:	Add \$.30 per sq. in. of total ticket area per 1,000 tickets.
Continuous scene games:	Add \$.99 per 1,000 tickets.
Scratch My Back™ Tickets: The basic ticket price does not apply to Scratch My Back type tickets. Scientific Games proposes to provide the Lottery with this type of product. The price for this product is as follows:	Add \$1.70 per sq. in. of total ticket area per 1,000 tickets.
FailSafe™: Quickly becoming the industry standard for secure keyless validation of instant tickets, FailSafe uses a machine readable bar code that is completely concealed under a scratch-off coating. The price for this product is as follows:	Add \$1.89 per 1,000 tickets.
Winner Audit System™:	Add \$400.00 per game.
Keyed Dual Security™: Keyed Dual Security (KDS) is a scratch game ticket manufacturing process that disconnects the relationship between pack number and pack value. This disconnection results in a secure environment such that game programming personnel have no valid information relating to the value of packs in the field:	\$1.10 per 1,000 tickets.
Graphic Bendays: Scientific Games has developed the technology to print a representation of the overprint design in the imaged data area of the ticket. The price differential, applied to the basic ticket price, to include a graphic benday pattern is as follows:	Add \$.16 per sq. in. of the ticket per 1,000 tickets.
Alternate Ticket Sizes: Tickets in sizes other than those specified in proposal response.	TBN
Alternate Imaged Bar Codes: Any format other than 1 of 5.	TBN
Licensed property games: Well-known consumer brands are one way the Lottery can expand its current player base. Research studies have shown that licensed property games attract players who do not normally play. Through its wholly owned subsidiary, MDI Entertainment, Scientific Games is able to offer the widest variety of licensed products available in the lottery industry. Our current list of well-known brands continues to grow. A current and complete listing of our available properties follows. As new properties are added or removed, Scientific Games will notify the Lottery. We make every effort to present new properties, as well as properties and their performances in other jurisdictions, to our lottery partners:	MDI price list for licensed games is provided in the following Licensed Property table.

## Official Proposal Price Sheet

INVITED OPTIONS	PRICE
<p>Value-added prizes:</p> <p><b>NOTE:</b> Due to the various program components that define the "value-added prizes programs," the Lottery and Scientific Games' personnel will establish program pricing after defining the value-added prizes program specifications in the product planning stages. Pricing is noted as "To Be Negotiated – TBN:"</p> <p>TPG Rewards:</p> <p>Music Downloads:</p>	<p>TBN</p> <p>TBN</p>
<p>Pearlescent inks:</p>	<p>Add \$.26 per sq. in. of total ticket area per 1,000 tickets.</p>
<p>Bar Coded Coupons</p>	<p>Negotiable based on coupon specifications.</p>
<p>100% Recycled Substrate</p>	<p>Pricing to be negotiated.</p>
<p>Second Chance Drawing Administration: Second chance web sites collect and securely store player contact information, collect internet-generated drawing entries and provide players with logs of the entries they submit, outline the features of the game being promoted, include the second chance drawing rules and regulations for using the mail and/or the Internet and show available prizes and other features deemed necessary:</p>	<p>TBN</p>
<p>Web Site Marketing and Support:</p>	<p>TBN</p>
<p>Merchandise Prize Fulfillment:</p>	<p>TBN</p>
<p>Omission Free Production: The basic ticket price assumes that omissions, which occur during normal production and ticket inspection, would be allowed in the delivery of tickets. The price differential, applied to the basic ticket price, for omit free production is as follows:</p>	<p>Add \$9,000.00 plus \$4.95 per 1,000 tickets.</p>
<p>Accelerated Deliverables: The basic ticket price assumes that tickets would be delivered on a timely basis, in accordance with the schedule to be specified in each set of working papers. The price differential, applied to the basic ticket price, to accelerate the delivery of tickets by one day (if available) from the normal schedule is as follows:</p>	<p>Add \$2,500.00 per day.</p>
<p>ConvenienceCentral™: Designed primarily for multiple check-out lane stores and c-store chains, ConvenienceCentral offers a totally customizable clerk-operated vending system selling online and instant games directly through the cash register accounting system:</p>	<p>TBN</p>

## Official Proposal Price Sheet

INVITED OPTIONS	PRICE
Dynamic Prize Structure Games (SecuReward™): The "SecuReward" system holds at least one top prize in the game aside to be awarded following game closure or at a time determined optimal by the Lottery. Players are not limited to single chance to win but can register as many non-winning tickets as they have in their possession:	TBN
Direct Mail Programs: The basic ticket price does not include a direct mail program. Scientific Games can provide a wide variety of direct mail programs and several features for these programs such unique as bar coded pieces, or pieces with UPC, etc. Since the types of programs are variable, the price differential for a direct mail program is as follows:	TBN
Packaged Goods Tie-In Promotions: Using variable imaged UPC codes, lotteries can create promotional partnerships with a wide range of packaged goods companies:	TBN
Chain Specific Games:	TBN
Cross-Promotion Games:	TBN
Attach Cards:	TBN
PushPlay™: An electronic version of the traditional instant games featuring multiple plays and extended play action:	TBN
PlayCentral™: Player activated full function instant/online product vending machine.	TBN
AccountPlay™: AccountPlay is a sophisticated gaming system that allows players to purchase a prepaid card through an authorized lottery retailer, then play the lottery over the telephone or Internet, where legally permitted:	TBN
Electronic Scratch Ticket (EST): A hand-held battery-operated, multi-play lottery game that is reusable and combines electronics with traditional paper tickets:	TBN
"Dream Team" Game Concepts: New Crossword, Family Fortune, EZ Color Bingo, Red Doubler Bingo, Great 8 Bingo, Bonus Back Play, Wild Bingo, Ringo, Ca\$hline, Single Double Triple, Linked Play, Big Bingo, Golden Spin, Advanced Imaging, Plus Games:	TBN
Newspaper Free Standing Inserts:	TBN
Spotlight™ Games:	TBN

Official Proposal Price Sheet

INVITED OPTIONS	PRICE
Online Game Design Services: Scientific Games continues to aggressively develop a diverse portfolio of new online game content. In addition, as a partner to many lotteries in the industry, we have helped each of our customers grow their business through the development and timely implementation of successful new online game content.	\$250 per hour
Pricing for the Scientific Games Online Game Design Services is:	
DetectiVision™:	TBN
Internet-Based Instant Game Play:	TBN
Retail Numbered Ticket Option:	TBN
Factory Direct Delivery to Retailers: Under this option, Scientific Games would ship tickets directly from our warehouse to the Lottery's retailers. The price for this service is as follows:	TBN
Coupons Among Instant Tickets: The basic ticket price assumes that all tickets within the pack would be instant game tickets. Scientific Games can provide a coupon among the instant tickets printed in the same size and with the same colors as the regular instant tickets (some design limitations may apply). The price differential, applied to the basic ticket price, to provide a coupon among ticket is as follows:	TBN
Game Labels:	TBN
In-Pack Promotions:	TBN
Monitor Game-Themed Scratch Tickets: Monitor Game-Themed Scratch Tickets will be available to the Lottery during the term of the contract:	TBN
SMS Games:	TBN
Electronically Enhanced Games:	TBN
Internet Lottery Games : Combines the Internet with the action of an instant and/or online ticket game:	TBN
Gift Cards: The basic ticket price does not apply to gift cards. Scientific Games proposes to provide the Lottery with this type of product. The price for this product is as follows:	TBN

Official Proposal Price Sheet

INVITED OPTIONS	PRICE
Marketing/Consulting Services: The basic ticket price assumes those products and services specified by the RFP are included. Marketing and/or consulting services beyond those specifically identified by the RFP or the proposal can be provided to the Lottery and are offered through this proposal. The cost for providing additional marketing/consulting services is as follows:	TBN
Cross-Merchandising:	TBN
Point-of-Sale:	TBN
Fluorescent Benday Patterns:	Add \$.02 per sq. in. of the ticket per 1,000 tickets.
Multiple Colored Ink Imaging: Two-color imaging: The basic ticket price assumes that all imaged data on the tickets within a game would be printed with one color, black ink-jet imager ink. Two-color imaging can be applied to the ticket. Design restrictions apply due to imager width availability. The price differential, applied to the basic ticket price, to include two-color imaging, is as follows:	Add \$5,500.00 plus a per 1,000 charge of \$3.75 per 1,000 tickets.
1-Color Imaging (other than black):	Add \$.90 per 1,000 tickets, plus \$2,000.00 set-up.
3-Color Imaging:	Add \$4.75 per 1,000 tickets, plus \$7,500.00 set-up.
4-Color-Imaging:	Add \$6.00 per 1,000 tickets, plus \$8,500.00 set-up.
Embossed Tickets: The basic ticket price does not include embossing of tickets. The price differential, applied to the ticket price, for an embossed ticket is:	Add \$7,500.00 plus \$5.00 per 1,000 tickets.
Printed Test Games (test games requiring press-delivered tickets):	\$6,000.00 per each test game.
Bulk Purchase Lottery Packs:	TBN
Patterned Ultra Shine:	TBN
Fold-Over Tickets: The basic ticket price does not include a ticket that can be folded by the consumer. The price differential, applied to the basic ticket price, to add a score which would allow the ticket to be folded by the ultimate consumer is as follows:	Add \$5.00 per 1,000 tickets. Plus \$7,500 set-up charge.
SalesMaker™ Program:	TBN

Official Proposal Price Sheet

INVITED OPTIONS	PRICE
Variable Imaged UPC Codes:	TBN
Lottery Playing Cards™: Packaging and design of Scientific Games' exclusive product.	TBN

Scientific Games traditionally offers licensed games under two pricing models: the “merchandise model” and the “licensing fee model.”

- **Model 1: Merchandise:** The Lottery secures the selected licensed property by allocating a percentage of the prize pool for the purchase of licensed merchandise from Scientific Games. Rates for each property secured under the “merchandise model” are specified more fully in the table below.
- **Model 2: Licensing Fee:** The Lottery secures the property by allocating a percentage of actual sales to be paid as a royalty fee. Rates for each property secured under the “licensing fee model” are specified more fully in the table below.
- **The New Model 3:** As a Properties Plus customer, the Lottery pays no license or royalty fees and nothing for the merchandise involved in a game, other than experiential prizes such as trips or grand prizes such as vehicles and motorcycles. All of this is included in the Properties Plus fee.

LICENSED PROPERTY	MERCHANDISE MODEL AS A PERCENTAGE OF THE PRIZE FUND	LICENSING FEE MODEL AS A PERCENTAGE OF SALES
7-Up Cola	8%	2%
A&W Root Beer Cola Brand	8%	2%
Abbott & Costello	8%	2%
Amazing Race	8%	2%
American Idol	8%	2%
Betty Boop	8%	2%
Big Boy Restaurants	8%	2%
Buddy Holly	8%	2%
Burger King	8%	2%
Crossword Cash	8%	2%
Crush Cola Brands (all flavors)	8%	2%

Figure 1: Scientific Games' Traditional Pricing Model



## Official Proposal Price Sheet

LICENSED PROPERTY	MERCHANDISE MODEL AS A PERCENTAGE OF THE PRIZE FUND	LICENSING FEE MODEL AS A PERCENTAGE OF SALES
CSI	8%	2%
Deal or No Deal	8%	2%
Dilbert	8%	2%
Dodge-1970-74 Challenger SRT8, R/T 2009	8% + Vehicles	2% + Vehicles
Dodge – Avenger RT 2008	8% + Vehicles	2% + Vehicles
Dodge – Charger 2008	8% + Vehicles	2% + Vehicles
Dodge – Durango 2008-2009	8% + Vehicles	2% + Vehicles
Dodge – Ram Trucks 2008	8% + Vehicles	2% + Vehicles
Dodge– SRT-4	8% + Vehicles	2% + Vehicles
Dodge – Viper SRT10 2008	8% + Vehicles	2% + Vehicles
Family Feud	8%	2%
Family Guy	8%	2%
Farcus Comics	8%	2%
Flintstones	8%	2%
For Dummies	8%	2%
Ford – Escape SUV Hybrid	8% + Vehicles	2% + Vehicles
Ford – Expedition	8% + Vehicles	2% + Vehicles
Ford – Explorer	8% + Vehicles	2% + Vehicles
Ford – Focus	8% + Vehicles	2% + Vehicles
Ford – F-Series Trucks	8% + Vehicles	2% + Vehicles
Ford – Mustang	8% + Vehicles	2% + Vehicles
Ford – Taurus	8% + Vehicles	2% + Vehicles
Fortune Cookie aka Lucky Fortune	8%	2%
Gary Patterson	8%	2%
Genuine Scooters	8% + Vehicles	2% + Vehicles
GM – Chevrolet Avalanche™ Truck	8% + Vehicles	2% + Vehicles
GM – Chevrolet Colorado Truck	8% + Vehicles	2% + Vehicles
GM – Chevrolet – Camero, 2009-2010	8% + Vehicles	2% + Vehicles

Figure 1: Scientific Games' Traditional Pricing Model

Official Proposal Price Sheet

LICENSED PROPERTY	MERCHANDISE MODEL AS A PERCENTAGE OF THE PRIZE FUND	LICENSING FEE MODEL AS A PERCENTAGE OF SALES
GM – Chevrolet Silverado® Truck	8% + Vehicles	2% + Vehicles
GM – Chevrolet– Tahoe & Tahoe Hybrid	8% + Vehicles	2% + Vehicles
GM – Corvette®	8% + Vehicles	2% + Vehicles
Golden Tee Arcade Game	8%	2%
Harley Davidson	8% + Vehicles	N/A
Hasbro – Battleship	8%	2%
Hasbro – Boggle	8%	2%
Hasbro – Clue	8%	2%
Hasbro – Connect 4	8%	2%
Hasbro – Game Of Life	8%	2%
Hasbro – Monopoly	8%	2%
Hasbro – Mouse Trap	8%	2%
Hasbro – Mystery Date	8%	2%
Hasbro – Operation	8%	2%
Hasbro – Ouija	8%	2%
Hasbro – Payday	8%	2%
Hasbro – RISK	8%	2%
Hasbro – Scattergories	8%	2%
Hasbro – Scrabble	8%	2%
Hasbro – Simon	8%	2%
Hasbro – Trivial Pursuit	8%	2%
Hasbro – Twister	8%	2%
Hasbro – Upwords	8%	2%
Hasbro – Yahtzee	8%	2%
Herman Comics	8%	2%
Hershey's – Almond Joy/Mounds	8%	2%
Hershey's – Bubble Yum	8%	2%
Hershey's – Good & Plenty/Good & Fruity	8%	2%

Figure 1: Scientific Games' Traditional Pricing Model

## Official Proposal Price Sheet

LICENSED PROPERTY	MERCHANDISE MODEL AS A PERCENTAGE OF THE PRIZE FUND	LICENSING FEE MODEL AS A PERCENTAGE OF SALES
Hershey's – Heath	8%	2%
Hershey's – Ice Breakers	8%	2%
Hershey's – Jolly Rancher	8%	2%
Hershey's – Kissables	8%	2%
Hershey's – Kisses	8%	2%
Hershey's – Milk Duds	8%	2%
Hershey's – Payday	8%	2%
Hershey's – Reese's	8%	2%
Hershey's – Reese's Pieces	8%	2%
Hershey's – S'Mores	8%	2%
Hershey's – Take 5	8%	2%
Hershey's – Twizzlers	8%	2%
Hershey's – Whoppers	8%	2%
Hershey's – York	8%	2%
Hershey's – Zero	8%	2%
Hires Cola Brands (all flavors)	8%	2%
Hot Tamales	8%	2%
Huevocartoon	8%	2%
I Love Lucy	8%	2%
IGT Slots – Cleopatra	8%	2%
IGT Slots – Dam Lumberjack Beavers	8%	2%
IGT Slots – Double Diamond	8%	2%
IGT Slots – Gopher Cash	8%	2%
IGT Slots – Haywire	8%	2%
IGT Slots – Hexbreaker	8%	2%
IGT Slots – Hoot Loot	8%	2%
IGT Slots – Jackpot Jewels Video Slots	8%	2%
IGT Slots – Little Green Men	8%	2%

Figure 1: Scientific Games' Traditional Pricing Model

Official Proposal Price Sheet

LICENSED PROPERTY	MERCHANDISE MODEL AS A PERCENTAGE OF THE PRIZE FUND	LICENSING FEE MODEL AS A PERCENTAGE OF SALES
IGT Slots --	8%	2%
IGT Slots – Money Storm Video Slots	8%	2%
IGT Slots – Red White & Blue	8%	2%
IGT Slots– Sizzling 7	8%	2%
IGT Slots – Spin Poker	8%	2%
IGT Slots – Top Dollar Slots	8%	2%
IGT Slots – Wild Cherry	8%	2%
Jane Wooster Scott (Artist)	8%	2%
Jeep	8% + Vehicles	2% + Vehicles
Jeopardy	8%	2%
Loteria	8%	2%
Mad Magazine	8%	2%
Magic 8 Ball	8%	2%
Major League Baseball	10%	N/A
Moto GP Motorcycle Series	8%	2%
National Hockey League	10%	N/A
NBA	10%	N/A
NHL Player Images	8%	2%
Norman Rockwell	8%	2%
Pac-Man (US/CA)	8%	2%
Palms Casino Resort	8%	2%
Password & Million Dollar Password	8%	2%
Paycheck	8%	2%
Pictionary	8%	2%
Pink Panther	8%	2%
Popeye	8%	2%
Press Your Luck	8%	2%
Price is Right	8%	2%

Figure 1: Scientific Games' Traditional Pricing Model

Official Proposal Price Sheet

LICENSED PROPERTY	MERCHANDISE MODEL AS A PERCENTAGE OF THE PRIZE FUND	LICENSING FEE MODEL AS A PERCENTAGE OF SALES
Professional Bull Riders	8%	2%
RC Cola Brand	8%	2%
Rocky & Bullwinkle	8%	2%
Rubik's Cube	8%	2%
Skee Ball	8%	2%
Slingo	8%	2%
Space Invaders	8%	2%
Speed Racer	8%	2%
Squirt Cola Brands	8%	2%
Survivor	8%	2%
The Jetsons	8%	2%
The Lottery Bank Cash Card	8%	2%
Tom Browning (Artist)	8%	2%
Ultimate Fighting Championship (UFC)	8%	2%
UNO	8%	2%
USA Today	8%	2%
Wheel of Fortune	8%	2%
Will Bullas (Artist)	8%	2%
Win My Wage	8%	2%
World Poker Tour	8%	2%
Zelda Wisdom	8%	2%

Figure 1: Scientific Games' Traditional Pricing Model

**STANDARD TERMS AND CONDITIONS**

**Delivery Tolerance** – The Lottery will be billed only for the exact quantity of conforming tickets actually delivered within the delivery tolerance at the price for the ordered quantity involved.

**Interpolation** – Prices quoted are such that linear interpolation between cost levels applies should the Lottery wish to purchase a quantity of tickets other than those actually listed.

**Royalties for Game Theme Trademarks, Copyrights, Licensed Properties, etc.** – Our pricing does not include royalties to be paid for the use of intellectual property rights for game themes or designs not required to print our standard tickets. These property rights include our portfolio of licensed or patented game themes and play styles, such as MONOPOLY®, HARLEY-DAVIDSON®, HOLD 'EM POKER® or BETTY BOOP®. In the event we or our affiliates are an authorized licensing representative for such rights and the Lottery desires to use them, such rights will be provided in a separate licensing agreement at additional cost. In all other cases, where such rights are requested for a given game, the Lottery shall be responsible for acquiring the right to use them. In the alternative, if requested by the Lottery, we will attempt to acquire such rights upon such terms and conditions as may be acceptable to the Lottery.

**Standard Items** – Our standard inks, materials, and procedures, which meet all specified requirements of the RFP, will be used in producing the tickets under this proposal. If any special items or steps are desired beyond these standard items, we will endeavor to provide them, and will quote the additional charge for them, if any, beforehand, for the Lottery's consideration.

**Inter-Relationship of Options** – Most of the options presented here may be selected independently of one another. However, some of the options are inter-related because of equipment limitations or technical reasons. For example, the total number of coatings which consist of the front display colors, back display colors, lily pad coat, seal coats, release coats, latex coat and overprints is limited by the total number of printing stations on the printing press in use at a given time.

**Dates** – We strongly advise against placing of dates of any kind onto instant lottery game tickets. Note that dating tickets converts instant game tickets into a "perishable" commodity. If ticket delivery is delayed due to force majeure, a condition of such dating is that the Lottery agrees to assume the risk of such force majeure and to accept such delayed tickets (regardless of the dating thereon).

**Taxes** – The price quoted is based on the assumption that no sales or use tax, no gambling-related tax, or no customs, duties, or importation taxes will be levied on the goods and services involved herein, and if they are, our price should be considered to be increased to the extent of such taxes.

**NASPL Best Practice Pricing Methodology** – Scientific Games subscribes and supports the following NASPL RFP Best Practice Pricing Methodology for Deliverables and Services Not Originally Defined (NASPL Guide to the Standard Request For Proposal (RFP) Template, Section 3.23.2):

*“Changes and enhancements that exceed RFP and contractually specified requirements (and which are not otherwise accommodated for in this RFP or by the pricing method in the RFP) will have the terms and price negotiated and approved by both parties, or be subject to a separate agreement. These include, but are not limited to, categorically different service obligations, and new technology enhancements.”*

Official Proposal Price Sheet

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## Arkansas Lottery Commission – Internal Audit

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

Status Report – March 8, 2011

#### **Audit Report Finding 2010-2:**

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

#### **Recommendation for Finding 2010-2:**

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

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

#### **Audit Objective #2**

Determine that the Arkansas Lottery Commission Legislative Oversight Committee and Arkansas Lottery Commission have reached an agreement concerning the submission of appropriate contract documents for review by the Arkansas Lottery Commission Legislative Oversight Committee.

**No Findings or Recommendations.** Lottery management has agreed to provide immediate notice to the Arkansas Lottery Commission Legislative Oversight Committee of all agreements described in a letter from the Co-chairs of the Committee dated December 14, 2010.

## **Arkansas Lottery Commission – Internal Audit**

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

**Status Report – March 8, 2011**

#### **Audit Objective #3**

Determine that Lottery management is submitting appropriate contractual documents for review by the Arkansas Lottery Commission Legislative Oversight Committee.

**No Findings or Recommendations.** Lottery management has submitted to the Arkansas Lottery Commission Legislative Oversight Committee all licensed instant ticket game agreements (2) entered into from July 1, 2010 through February 28, 2011. The Arkansas Lottery Commission's legal counsel has indicated that the Lottery is in compliance with the contents of the letter from the Co-chairs of the Committee dated December 14, 2010.