

# Arkansas

Scholarship Lottery

"A Natural State of Fun!"

ARKANSAS LOTTERY  
COMMISSION

Dianne Lamberth,  
Chair

June 10, 2011

Mike Malone,  
Vice Chair

The Honorable Johnny Key, Chair  
Arkansas Lottery Commission Legislative Oversight Committee  
One Capitol Mall, Room R-501  
Little Rock, AR 72201

Ben Pickard,  
Secretary/Treasurer

John C. (Smokey)  
Campbell III

RE: Monthly Disclosure Reports

Bruce R. Engstrom

Dear Senator Key:

Steve Faris

On behalf of our agency and the Commissioners of the Arkansas Lottery Commission, please accept the attached monthly disclosure reports pursuant to §§ 23-115-206 and 23-115-302 for the month of May 2011. The report contains the following information:

Raymond Frazier

George Hammons

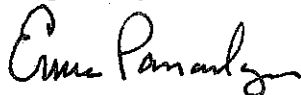
1. Contracts Awarded
2. Debt Set-Off Collections
3. Retailer Losses
4. Breakdown of Lottery Sales per County
5. Total Number of Retailers
6. Total Lottery Revenue
7. Prize Disbursements
8. Operating Expenses
9. Net Assets
10. Administrative Expenses
11. Unclaimed Prize Report
12. Arkansas Scholarship Lottery Minority- and Female-owned Business Report
13. Arkansas Scholarship Lottery Vendor Minority- and Female-owned Business Report
14. Arkansas Scholarship Lottery Demographics
15. Internal Auditor Report
16. Instant Ticket Games Released

Patty L. Shipp

Ernie Passailaigue,  
Director

Please call me if you have any questions or need additional information.

Respectfully submitted,



Ernie Passailaigue  
Director, Arkansas Lottery Commission

Enclosures

cc: Ms. Dianne Lamberth, Chair  
Arkansas Lottery Commission

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One Capitol Mall, Room R-501  
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RE: Monthly Disclosure Reports

John C. (Smokey)  
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Bruce R. Engstrom

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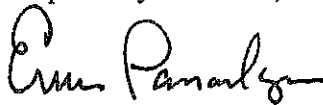
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Please call me if you have any questions or need additional information.

Respectfully submitted,



Ernie Passailaigue  
Director, Arkansas Lottery Commission

Enclosures

cc: Ms. Dianne Lamberth, Chair  
Arkansas Lottery Commission

**Arkansas Lottery Commission Term Contracts for Goods and Services  
May 2011**

The Arkansas Lottery Commission entered into an amended and restated Decades of Dollars agreement with Georgia Lottery Corporation, Virginia Lottery Department, and Kentucky Lottery Corporation during the month of May 2011. That agreement has been provided to the Arkansas Lottery Commission Legislative Oversight Committee under separate cover letter.

**Arkansas Lottery Commission  
Debt Set-Off / Retailer Losses  
May 2011**

1. Retailer losses for period May 1 through May 31, 2011: There were no retailer losses for the month of May 2011.

2. Debt Set-Off:

a.	Department of Finance and Administration	\$8,269.51
b.	Office of Child Support Enforcement - Child Support	<u>\$0.00</u>
	Total Debt Set-Off:	<u>\$8,269.51</u>

**ARKANSAS LOTTERY COMMISSION**  
**RETAIL SALES BY COUNTY**  
**May 1 through May 31, 2011**

COUNTY	CASH 3	CASH 4	DECADES OF DOLLARS	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	TOTAL SALES FOR COUNTY
ARKANSAS	\$3,255.50	\$3,907.50	\$5,294.00	\$3,844.00	\$581,767.00	\$14,866.00	\$26,595.00	\$639,529.00
ASHLEY	\$11,672.50	\$9,821.50	\$1,960.00	\$1,102.00	\$115,200.00	\$5,381.00	\$13,094.00	\$158,231.00
BAXTER	\$3,428.50	\$2,493.00	\$6,176.00	\$3,047.00	\$351,900.00	\$16,128.00	\$40,938.00	\$424,110.50
BENTON	\$4,823.50	\$2,127.00	\$13,834.00	\$6,691.00	\$892,171.00	\$45,730.00	\$122,568.00	\$1,087,944.50
BOONE	\$2,737.00	\$1,882.50	\$2,984.00	\$3,109.00	\$330,855.00	\$10,343.00	\$25,033.00	\$376,943.50
BRADLEY	\$624.50	\$485.50	\$844.00	\$1,338.00	\$101,894.00	\$3,405.00	\$6,803.00	\$115,394.00
CALHOUN	\$405.00	\$204.00	\$388.00	\$233.00	\$41,232.00	\$1,777.00	\$3,352.00	\$47,591.00
CARROLL	\$399.50	\$664.00	\$2,318.00	\$1,450.00	\$250,800.00	\$6,990.00	\$19,724.00	\$282,345.50
CHICOT	\$5,418.00	\$2,306.00	\$3,590.00	\$1,219.00	\$186,600.00	\$15,454.00	\$36,360.00	\$250,947.00
CLARK	\$4,106.50	\$1,113.50	\$3,286.00	\$4,124.00	\$479,384.00	\$11,878.00	\$24,156.00	\$528,048.00
CLAY	\$414.50	\$109.50	\$560.00	\$513.00	\$96,300.00	\$2,035.00	\$5,142.00	\$105,074.00
CLEBURNE	\$927.00	\$464.50	\$4,308.00	\$2,560.00	\$343,753.00	\$18,375.00	\$34,326.00	\$404,713.50
CLEVELAND	\$566.00	\$383.00	\$1,220.00	\$1,233.00	\$87,900.00	\$3,004.00	\$6,417.00	\$100,723.00
COLUMBIA	\$9,257.00	\$5,430.50	\$2,680.00	\$1,040.00	\$210,987.00	\$5,895.00	\$12,572.00	\$247,861.50
CONWAY	\$5,962.50	\$2,178.50	\$5,126.00	\$3,874.00	\$475,500.00	\$17,590.00	\$33,264.00	\$543,495.00
CRAIGHEAD	\$6,493.00	\$3,571.50	\$8,678.00	\$9,936.00	\$1,374,330.00	\$31,036.00	\$81,374.00	\$1,515,418.50
CRAWFORD	\$2,724.50	\$1,089.50	\$7,916.00	\$2,923.00	\$461,700.00	\$22,342.00	\$65,584.00	\$564,279.00
CRITTENDEN	\$12,685.00	\$6,785.50	\$5,026.00	\$2,339.00	\$601,078.00	\$24,184.00	\$67,097.00	\$719,194.50
CROSS	\$2,297.00	\$1,619.50	\$2,140.00	\$1,800.00	\$264,000.00	\$7,455.00	\$14,755.00	\$294,066.50
DALLAS	\$1,649.50	\$1,813.50	\$2,556.00	\$3,755.00	\$182,100.00	\$6,453.00	\$11,146.00	\$209,473.00
DESHA	\$1,206.50	\$305.00	\$1,582.00	\$493.00	\$199,500.00	\$7,267.00	\$14,101.00	\$224,454.50
DREW	\$938.00	\$438.50	\$2,024.00	\$2,539.00	\$192,900.00	\$7,975.00	\$16,083.00	\$222,897.50
FAULKNER	\$6,649.50	\$4,408.50	\$15,348.00	\$11,952.00	\$1,329,594.00	\$55,991.00	\$116,152.00	\$1,540,095.00
FRANKLIN	\$570.00	\$292.50	\$2,572.00	\$4,035.00	\$242,695.00	\$6,955.00	\$18,081.00	\$275,200.50
FULTON	\$202.00	\$68.00	\$690.00	\$106.00	\$65,123.00	\$1,913.00	\$4,116.00	\$72,218.00
GARLAND	\$6,113.00	\$4,358.50	\$19,944.00	\$5,541.00	\$1,020,226.00	\$72,071.00	\$146,762.00	\$1,275,015.50
GRANT	\$781.00	\$253.50	\$3,170.00	\$2,900.00	\$201,300.00	\$9,445.00	\$18,864.00	\$236,713.50
GREENE	\$5,057.00	\$1,169.50	\$3,260.00	\$4,498.00	\$599,054.00	\$12,458.00	\$31,156.00	\$656,652.50
HEMPSTEAD	\$18,069.50	\$4,730.50	\$1,854.00	\$3,104.00	\$369,300.00	\$8,148.00	\$15,642.00	\$420,848.00
HOT SPRING	\$1,930.50	\$971.00	\$5,674.00	\$3,981.00	\$367,200.00	\$14,650.00	\$28,700.00	\$423,106.50

**ARKANSAS LOTTERY COMMISSION**  
**RETAIL SALES BY COUNTY**  
**May 1 through May 31, 2011**

COUNTY	CASH 3	CASH 4	DECADES OF DOLLARS	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	TOTAL SALES FOR COUNTY
HOWARD	\$12,127.50	\$4,614.00	\$1,704.00	\$760.00	\$178,800.00	\$4,292.00	\$7,422.00	\$209,719.50
INDEPENDENCE	\$3,285.50	\$1,644.00	\$7,592.00	\$6,074.00	\$781,764.00	\$20,707.00	\$40,557.00	\$861,623.50
IZARD	\$202.00	\$116.00	\$796.00	\$244.00	\$93,600.00	\$3,818.00	\$7,883.00	\$106,659.00
JACKSON	\$10,318.50	\$3,989.00	\$5,196.00	\$2,641.00	\$453,300.00	\$10,438.00	\$20,699.00	\$506,581.50
JEFFERSON	\$34,736.50	\$21,129.00	\$19,290.00	\$15,398.00	\$1,801,724.00	\$53,118.00	\$96,049.00	\$2,041,444.50
JOHNSON	\$182.50	\$74.00	\$3,144.00	\$1,174.00	\$292,072.00	\$9,605.00	\$21,378.00	\$327,629.50
LAFAYETTE	\$2,899.00	\$841.00	\$512.00	\$1,314.00	\$89,400.00	\$1,385.00	\$3,569.00	\$99,920.00
LAWRENCE	\$1,895.50	\$380.00	\$1,170.00	\$1,816.00	\$283,200.00	\$5,119.00	\$10,939.00	\$304,519.50
LEE	\$2,231.50	\$1,696.00	\$1,152.00	\$1,393.00	\$121,500.00	\$2,189.00	\$4,906.00	\$135,067.50
LINCOLN	\$587.00	\$148.50	\$714.00	\$473.00	\$143,525.00	\$4,155.00	\$7,622.00	\$157,224.50
LITTLE RIVER	\$2,315.50	\$1,287.00	\$1,206.00	\$5,279.00	\$92,680.00	\$2,402.00	\$4,147.00	\$109,316.50
LOGAN	\$1,576.50	\$399.00	\$3,850.00	\$4,292.00	\$310,500.00	\$8,761.00	\$21,268.00	\$350,646.50
LONOKE	\$4,915.00	\$2,587.50	\$13,906.00	\$8,745.00	\$1,300,800.00	\$42,834.00	\$90,197.00	\$1,463,984.50
MADISON	\$101.50	\$110.50	\$1,018.00	\$1,515.00	\$95,544.00	\$3,693.00	\$8,433.00	\$110,415.00
MARION	\$1,322.00	\$227.00	\$2,174.00	\$3,045.00	\$159,000.00	\$6,177.00	\$13,483.00	\$185,428.00
MILLER	\$20,602.00	\$6,015.00	\$3,864.00	\$4,114.00	\$373,994.00	\$11,384.00	\$21,837.00	\$441,810.00
MISSISSIPPI	\$31,306.50	\$12,037.50	\$2,616.00	\$3,955.00	\$590,597.00	\$10,294.00	\$25,674.00	\$676,480.00
MONROE	\$2,825.50	\$1,313.00	\$1,924.00	\$1,429.00	\$149,400.00	\$6,730.00	\$12,824.00	\$176,445.50
MONTGOMERY	\$57.50	\$3.00	\$676.00	\$258.00	\$22,200.00	\$2,426.00	\$5,571.00	\$31,191.50
NEVADA	\$1,775.50	\$594.50	\$2,258.00	\$847.00	\$282,900.00	\$4,699.00	\$8,254.00	\$301,328.00
NEWTON	\$214.00	\$81.50	\$346.00	\$536.00	\$72,900.00	\$1,808.00	\$3,635.00	\$79,520.50
OUACHITA	\$9,711.50	\$5,167.00	\$4,496.00	\$5,931.00	\$520,682.00	\$12,349.00	\$25,168.00	\$583,504.50
PERRY	\$978.50	\$434.50	\$1,146.00	\$253.00	\$98,400.00	\$5,593.00	\$9,075.00	\$115,880.00
PHILLIPS	\$4,402.00	\$5,555.00	\$2,216.00	\$1,472.00	\$241,500.00	\$9,337.00	\$23,851.00	\$288,333.00
PIKE	\$116.00	\$96.00	\$1,088.00	\$700.00	\$112,500.00	\$5,355.00	\$9,529.00	\$129,384.00
POINSETT	\$6,348.00	\$1,816.00	\$3,374.00	\$4,146.00	\$581,604.00	\$9,060.00	\$21,579.00	\$627,927.00
POLK	\$462.00	\$199.00	\$2,160.00	\$478.00	\$181,798.00	\$7,256.00	\$17,467.00	\$209,820.00
POPE	\$6,666.00	\$3,238.50	\$12,144.00	\$3,385.00	\$939,900.00	\$33,601.00	\$72,029.00	\$1,070,963.50
PRAIRIE	\$3,880.00	\$781.50	\$1,152.00	\$416.00	\$126,000.00	\$4,185.00	\$8,436.00	\$144,850.50
PULASKI	\$89,759.50	\$55,425.00	\$100,822.00	\$57,216.00	\$7,855,377.00	\$303,732.00	\$590,903.00	\$9,053,234.50
RANDOLPH	\$166.00	\$195.50	\$1,054.00	\$213.00	\$142,800.00	\$3,590.00	\$8,571.00	\$156,589.50

**ARKANSAS LOTTERY COMMISSION  
RETAIL SALES BY COUNTY  
May 1 through May 31, 2011**

COUNTY	CASH 3	CASH 4	DECADES OF DOLLARS	FAST PLAY	INSTANT	MEGA MILLIONS	POWERBALL	TOTAL SALES FOR COUNTY
SAINT FRANCIS	\$6,641.00	\$3,424.00	\$2,502.00	\$1,684.00	\$303,349.00	\$8,869.00	\$21,067.00	\$347,536.00
SALINE	\$7,814.00	\$3,298.50	\$17,368.00	\$10,578.00	\$1,533,401.00	\$65,110.00	\$129,203.00	\$1,766,772.50
SCOTT	\$103.00	\$10.00	\$876.00	\$1,189.00	\$169,200.00	\$3,545.00	\$8,813.00	\$183,736.00
SEARCY	\$1,737.00	\$385.00	\$1,462.00	\$3,401.00	\$110,100.00	\$3,279.00	\$6,541.00	\$126,905.00
SEBASTIAN	\$10,960.00	\$3,060.00	\$17,292.00	\$7,256.00	\$902,505.00	\$48,590.00	\$136,916.00	\$1,126,579.00
SEVIER	\$2,352.50	\$533.00	\$1,266.00	\$849.00	\$138,000.00	\$3,098.00	\$6,975.00	\$153,073.50
SHARP	\$972.50	\$476.00	\$1,574.00	\$1,303.00	\$180,900.00	\$5,656.00	\$11,719.00	\$202,600.50
STONE	\$832.00	\$314.00	\$922.00	\$1,739.00	\$99,900.00	\$4,656.00	\$9,940.00	\$118,303.00
UNION	\$33,319.50	\$16,193.00	\$5,656.00	\$5,906.00	\$653,630.00	\$17,715.00	\$36,683.00	\$769,102.50
VAN BUREN	\$1,391.50	\$760.50	\$2,146.00	\$996.00	\$208,200.00	\$8,444.00	\$18,024.00	\$239,962.00
WASHINGTON	\$7,745.00	\$4,575.50	\$20,116.00	\$9,646.00	\$1,464,527.00	\$64,535.00	\$169,978.00	\$1,741,122.50
WHITE	\$2,713.00	\$1,779.00	\$9,864.00	\$9,038.00	\$1,276,860.00	\$34,786.00	\$67,255.00	\$1,402,295.00
WOODRUFF	\$2,346.50	\$422.50	\$1,158.00	\$740.00	\$180,600.00	\$4,693.00	\$8,299.00	\$198,259.00
YELL	\$1,440.00	\$297.00	\$2,186.00	\$4,328.00	\$230,700.00	\$8,434.00	\$16,406.00	\$263,791.00

**GRAND TOTALS**      \*Cash 3      \$459,697.50      \*Cash 4      \$233,168.50      Decades of Dollars      \$426,150.00      \*Fast Play      \$293,444.00      \*Instant      \$37,958,176.00      \*Mega Millions      \$1,358,696.00      \*Powerball      \$2,930,731.00      \*Totals      \$43,660,063.00

\*Estimates

**Arkansas Lottery Commission  
Total Number of Active Retailers  
May 2011**

As of May 31, 2011, there were 1,955 active retailers.



**Arkansas Lottery Commission**  
**Statement of Net Assets**  
**May 31, 2011**

**ASSETS**

**Current assets:**

Cash and Cash Equivalents	\$ 9,661,132.45
Restricted Assets:	
Cash and cash equivalents	49,855,876.77
Accounts receivable	12,925,314.36
Prepaid items	<u>31,898.47</u>
 Total current assets	 <u>72,474,222.05</u>

**Noncurrent assets:**

Restricted assets:	
Cash and cash equivalents	20,050,991.33
Deposits with Multi-State Lottery Asso.	1,062,024.18
Capital assets:	
Equipment	526,664.88
Leasehold Improvements	498,416.68
Less accumulated depreciation	<u>(287,212.83)</u>
 Total noncurrent assets	 <u>21,850,884.24</u>
 Total assets	 <u>\$ 94,325,106.29</u>

**LIABILITIES**

**Current liabilities:**

Accounts payable	\$ 740,515.54
Prizes payable	16,500,333.63
Accrued and other liabilities	1,512,392.84
Due to other funds	368,180.00
Due to ADHE	58,355,898.15
Compensated absences	268,499.52
Deferred revenue	<u>457,879.50</u>
 Total current liabilities	 <u>78,203,699.18</u>

**Noncurrent liabilities:**

Net postemployment benefits payable	<u>230,021.67</u>
 Total liabilities	 <u>78,433,720.85</u>

**NET ASSETS**

**Net assets:**

Invested in capital assets	737,868.73
Restricted for:	
Scholarship shortfall fund	20,000,000.00
Retailer fidelity fund	41,646.41
Deposits with MUSL	1,062,024.18
Unrestricted	<u>(5,950,153.88)</u>
 Total net assets	 <u>15,891,385.44</u>
 Total liabilities & net assets	 <u>\$ 94,325,106.29</u>



**Arkansas Scholarship Commission**  
**Net Proceeds Transfer to Ed Trust Computation**  
**For the Eleven Months Ending May 31, 2011**

Year to date

**Operating revenues:**

Instant ticket SETTLEMENTS	\$ 357,793,737.00
Online ticket sales	68,828,087.08
Retailer application, fidelity and service fees	978,487.94
Other revenue	3,349.18
	3,349.18

Total operating revenues 427,603,661.20

**Operating expenses:**

Instant game prizes SETTLEMENTS	245,695,163.88
Online game prizes	33,393,547.82
Retailer commissions	23,992,271.09
Gaming contract costs	22,096,421.14
Compensation and benefits	5,435,657.30
Marketing, advertising and promotions	3,959,863.61
General and administrative expenses	1,219,211.69
Services provided by other agencies	291,380.00
Legal and professional services	344,186.13
Current year Capital Asset cost	34,831.87
Total operating expenses	336,462,534.53

Change in net proceeds from operations 91,141,126.67

**Nonoperating revenue (expense):**

Interest Income	425,798.73	
EDUCATION TRUST FUNDING-Current Year	(82,034,304.88)	
Less Act 1180 Unclaimed Prizes	0.00	ALC Director plans to implement for fiscal year 2012
Less Current year Fidelity Fund fees	(22,815.10)	restricted fund
Less Current year MUSL Reserves additions	(604,756.21)	see 23-115-103(17) and (19)(A)&(B)
Less fiscal year 2010 subsequent transactions	(383,264.55)	prior year expense items not previously charged to Net Proceeds

**NET PROCEEDS EARNED-Current Month**

**\$ 8,521,784.66**

	Totals	Transfer	Interest	Total
		\$ 57,933,545.37	\$ 422,352.78	\$ 58,355,898.15
October 2009 funding -11/15/09		\$ 8,120,211.99		\$ 8,120,211.99
November 2009 funding - 12/15/09		\$ 9,038,495.35	\$ 1,835.39	\$ 9,040,330.74
December 2009 funding - 1/14/10		\$ 10,829,280.27	\$ 6,109.34	\$ 10,835,389.61
January 2010 funding - 2/15/10		\$ 9,125,874.01	\$ 10,956.20	\$ 9,136,830.21
February 2010 funding - 3/12/10		\$ 10,467,824.60	\$ 13,741.79	\$ 10,481,566.39
March 2010 funding - 4/14/10		\$ 11,014,624.69	\$ 20,506.68	\$ 11,035,131.37
April 2010 funding - 5/13/10		\$ 8,937,980.78	\$ 24,355.11	\$ 8,962,335.89
May 2010 funding 6/14/10		\$ 9,065,920.17	\$ 29,966.86	\$ 9,095,887.03
June 2010 funding -7/14/10		\$ 6,059,225.23	\$ 32,900.15	\$ 6,092,125.38
July 2010 funding - 8/13/10		\$ 8,503,421.96	\$ 37,490.77	\$ 8,540,912.73
August 2010 funding - 9/14/10		\$ 7,925,706.45	\$ 41,129.77	\$ 7,966,836.22
September 2010 funding - 10/14/10		\$ 7,361,418.43	\$ 43,339.89	\$ 7,404,758.32
October transfer to ADHE 10/1/10		\$ (65,000,000.00)		\$ (65,000,000.00)
October 2010 funding - 11/12/10		\$ 7,197,503.10	\$ 18,042.76	\$ 7,215,545.86
November 2010 funding - 12/15/10		\$ 8,235,343.71	\$ 20,925.06	\$ 8,256,268.77
December 2010 funding - 1/14/11		\$ 6,671,666.03	\$ 25,098.81	\$ 6,696,764.84
January 2011 funding - 2/11/11		\$ 9,005,241.74	\$ 28,533.34	\$ 9,033,775.08
February transfer to ADHE 2/11/11		\$ (50,000,000.00)		\$ (50,000,000.00)
February 2011 funding - 3/14/11		\$ 8,213,896.20	\$ 15,845.40	\$ 8,229,741.60
March 2011 funding - 4/13/11		\$ 10,279,304.63	\$ 12,939.26	\$ 10,292,243.89
April 2011 funding - 5/13/11		\$ 8,380,584.65	\$ 16,872.92	\$ 8,397,457.57
May 2011 funding - 6/14/11		\$ 8,500,021.38	\$ 21,763.28	\$ 8,521,784.66

**Arkansas Lottery Commission**

**Unclaimed Prizes**

**May 2011**

1. Unclaimed lottery prize money: \$3,848,888
2. Expenditures from unclaimed lottery prize money: 0
3. Deposits to net lottery proceeds from unclaimed lottery prize money: \$3,848,888

**ARKANSAS LOTTERY COMMISSION MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**  
**May 1 through May 31, 2011**

<b>Vendors</b>	<b>Goods or Services</b>	<b>Diversity Classification</b>	<b>Fiscal 2011</b>	<b>May 2011</b>
African American Perspectives	Advertising/Public Relations	Minority-owned	\$3,750.00	
Best Banner and Sign	Promotional Items	Female-owned	\$27.31	
Dr. B's Windshield Repair Company	Vehicle Maintenance	Minority-owned	\$69.88	
Goddess Products	Office Furniture/Supplies	Minority-owned	\$83,562.53	\$19,815.14
Hog Wash Detail Dent & Tint	Auto Detail & Cosmetic Repair	Minority-Owned	\$268.73	
HOLA! Arkansas	Advertising/Public Relations	Minority-owned	\$1,000.00	
Inclusion Magazine	Advertising/Public Relations	Minority-owned	\$3,750.00	
LAF Productions, Inc.	Advertising/Public Relations	Minority-owned	\$4,622.00	
Mr. B's 2 Mobile Hand Wash & Wax	Car Detail and Inspection	Minority-owned	\$704.58	
RB Professional Cleaning Service	Janitorial Services	Female-owned	\$4,929.68	\$434.00
RU-MEL & Associates, Inc.	Advertising/Public Relations	Minority-owned	\$950.00	
SHI International Corp.	Computer Software	Female-owned	\$8,867.98	
STAND News	Advertising/Public Relations	Minority-owned	\$3,600.00	
The American Banner Publishing, LLC	Advertising/Public Relations	Minority-owned	\$1,233.00	
Trivia Marketing	Advertising/Public Relations	Female-owned	\$1,197.04	\$60.20
<b>Totals</b>			<b>\$118,532.73</b>	<b>\$20,309.34</b>

**INTRALOT MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**  
**May 1 through May 31, 2011**

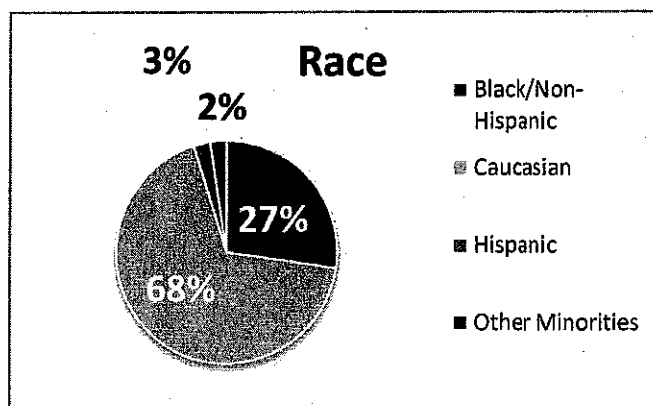
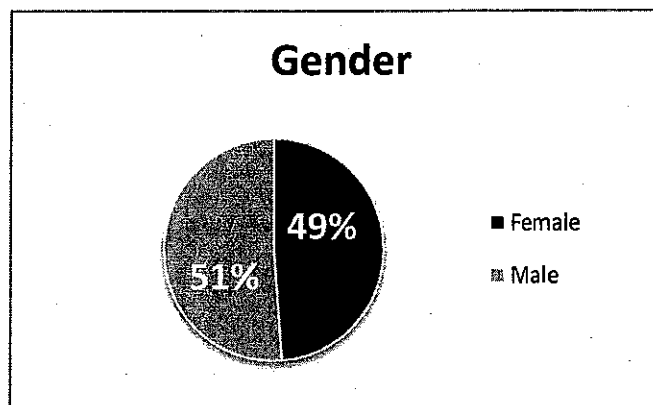
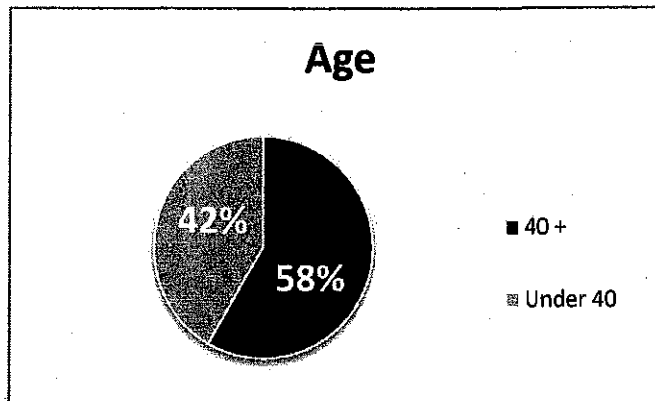
Vendors	Goods or Services	Diversity Classification	Fiscal 2011	May 2011
Finders Keepers	Technical Support	Female-owned	\$58,822.40	
Goddess Products	Office Furniture/Supplies	Minority-owned	\$500.24*	
J. Kelly Referrals & Information Services, Inc.	Call Center/Information Services	Minority-owned	\$184,039.27	\$15,593.35
<b>Totals</b>			<b>\$243,361.91</b>	<b>\$15,593.35</b>

\*Intralot made a credit correction to invoice 7859, resulting in -\$341.61 from previous month for vendor "Goddess Products"

**SCIENTIFIC GAMES MINORITY- AND FEMALE-OWNED DIVERSITY COMPLIANCE REPORT**  
**May 1 through May 31, 2011**

Vendors	Goods or Services	Diversity Classification	Fiscal 2011	May 2011
Choice Promotions	Promotional Items	Minority-owned	\$53,009.20	
Expedited Transportation Service	Transportation Services	Female-owned	24,245.95	\$3,031.00
Indoff, Incorporated	Office Supplies	Minority-owned	\$2,504.49	
Laura's Draperies and Blinds	Blinds for Office	Female-Owned	\$90.25	
Mr. Clean	Janitorial Services	Minority-owned	\$3,161.30	
Premier Staffing	Staffing Services	Female-owned	\$14,840.46	\$1,616.22
State Imaging Supply	Office Supplies	Female-owned	\$650.90	
<b>Totals</b>			<b>\$98,502.55</b>	<b>\$4,647.22</b>

**Arkansas Lottery Commission  
Demographics – May 2011**



**Total Number of Employees as of May 31, 2011: 84**

**Gender:**

Females – 41

Males – 43

**Race:**

**Black/Non-Hispanic – 23**

Female – 15

Male – 8

**Hispanic – 2**

Female - 2

Male - 0

**Age:**

Under 40 – 35

40+ – 49

**Caucasian – 57**

Female - 24

Male - 33

**Other – 2**

Female - 0

Male - 2

**Arkansas Lottery Commission**

**Instant Games**

**May 2011**

Sales for the following instant games began May 3, 2011. No ending dates have been determined for these games.

\$1 Sevens/Elevens

\$2 Triple 7's

\$3 Cash in a Splash

\$20 \$1,000,000 Diamond Dazzler



## 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 – June 6, 2011

#### **Audit Report Finding 2010-1:**

Ark. Code Ann. § 23-115-206 (a) (6) requires the Agency to “prepare the financial statements, including the related notes to the financial statements, of the commission in accordance with generally accepted accounting principles (GAAP) and in accordance with guidelines and timelines established by the Chief Fiscal Officer of the State to permit incorporation into the state’s financial statements and to permit the audit of the state’s financial statements and the commission’s financial statements in a timely manner;”. The Agency did not prepare the June 30, 2010 financial statements and related notes in accordance with GAAP. The failure to prepare the financial statements and related notes in accordance with GAAP resulted in errors and omissions that could adversely affect the inclusion of the Arkansas Lottery Commission Financial Statements and related notes in the State’s Comprehensive Annual Financial Report.

#### **Recommendation for Finding 2010-1:**

We recommend the Agency strengthen internal control over financial reporting by ensuring appropriate employees are qualified and knowledgeable of all applicable Governmental Accounting Standards and prepare the financial statements and related notes in accordance with GAAP.

#### **Audit Objective #1**

Review the Arkansas Lottery Commission’s June 30, 2011 financial statements and related notes prior to submission to the Division of Legislative Audit.

#### **Status as of June 6, 2011**

##### Audit fieldwork planned

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

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 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 – June 6, 2011**

**Audit Objective #3**

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

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

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Management Letter Finding #1:**

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

#### **Recommendation for Management Letter Finding #1:**

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

**NOTE – This finding was cleared by Internal Audit on June 6, 2011.**

#### **Audit Objective #4**

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

**No Findings or Recommendations.** The Arkansas Scholarship Lottery Winner Claim Form has been updated to state the following:

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

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### Audit Objective #5

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

#### **No Findings or Recommendations.**

- Act 207 of 2011 changed the requirements regarding prohibited players to the following:

*The commission shall not pay a lottery prize that exceeds the amount of five hundred dollars (\$500) to any: (A) Member of the commission; (B) Employee of the commission; or (C) Member of the immediate family of a member of the commission or an employee of the commission living in the same household as the member of the commission or the employee.*

- Lottery management has developed a database of all ineligible players based on the criteria included in Act 207 of 2011.
- Internal Audit tested the ineligible player database for completeness as of May 5, 2011. No exceptions were noted.
- A module in the gaming system to automate the procedure of verifying the eligibility of a player in the validation process of high-tier prize payments was implemented on April 25, 2011.
- Internal Audit tested the Lottery's gaming system's ineligible player verification module to ensure that any player included in the ineligible player database that attempts to redeem a lottery prize in excess of \$500 is flagged by the system and payment of the prize is disallowed. No exceptions were noted.
- Lottery management has developed policies and procedures to establish rules and guidelines for maintaining an accurate and up-to-date database of ineligible players as outlined in Act 207 of 2011.

**Arkansas Lottery Commission – Internal Audit**

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

**Status Report – June 6, 2011**

**Legislative Audit Management Letter Finding #2:**

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

**Legislative Audit Recommendation for Management Letter Finding #2:**

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

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

**Audit Objective #6**

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

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

**Audit Objective #7**

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

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

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Legislative Audit Management Letter Finding #3:**

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

#### **Legislative Audit Recommendation for Management Letter Finding #3:**

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

#### **Audit Objective #8**

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

#### **Status as of June 6, 2011**

Audit fieldwork complete – No findings or recommendations

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

**Arkansas Lottery Commission – Internal Audit**

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

**Status Report – June 6, 2011**

**Audit Objective #9**

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

**Status as of June 6, 2011**

Audit fieldwork complete – No findings or recommendations

Lottery management has established a *Compensatory Time Policy*. In addition, an email written by the Lottery's Human Resources Director provided guidance to effected employees regarding usage of the compensatory time awarded.

**Audit Objective #10**

Determine that compensatory time usage is accounted for in accordance with policies and procedures, approved, and adequately supported.

**Status as of June 6, 2011**

Audit fieldwork complete – No findings or recommendations

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



## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Audit Objective #11**

Determine that the Executive Director and Vice Presidents are repaying compensatory time in accordance with the methodology submitted and reviewed by the Arkansas Lottery Commission.

#### **Status as of June 6, 2011**

##### Audit fieldwork in progress

##### Executive Director

The Executive Director has repaid all 16 hours compensatory time used by reducing his annual leave balance.

##### Vice President of Gaming

The Vice President of Gaming has repaid all 134.5 hours compensatory time used by reducing his annual leave balance (52.5 hours) and compensation (82 hours).

##### Vice President of Administration

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

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

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

#### **Status Report – June 6, 2011**

3. The remainder of the compensatory time will be paid by the Vice President of Administration to bring the balance to zero by the end of July 2011.
- The Vice President of Administration has a balance of 113.97 hours as of June 6, 2011. The original balance of the compensatory time to be reimbursed of 178.5 hours has been reduced by a reduction in compensation of eight hours per check for eight pay periods (64 hours) and a payroll deduction overpayment of \$57.69 (.53 hours) not returned to the Vice President of Administration.

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Legislative Audit Management Letter Finding #4:**

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

#### **Legislative Audit Recommendation for Management Letter Finding #4:**

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

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

#### **Audit Objective #12**

Determine that an Attorney General's opinion has been requested concerning the Arkansas Lottery Commission's Executive Director's retirement contributions (Ark. Code Ann. §§ 23-115-304(b), 24-4-101, and 24-4-601).

**No Findings or Recommendations.** The Legislative Joint Audit Committee requested an Attorney General's opinion regarding the Arkansas Lottery Commission's Executive Director's retirement contributions. Attorney General Opinion Number 2010-150 was issued on February 7, 2011. The opinion states that the specific language in the Arkansas Lottery Act holds precedent over the general statutes contained in Ark. Code Ann. 524-4-101 and 24-4-601. Therefore, contributions for retirement should be based on the Executive Director's salary without multipliers.

**Arkansas Lottery Commission – Internal Audit**

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

**Status Report – June 6, 2011**

**Audit Objective #13**

Determine that the Arkansas Lottery Commission has been reimbursed from the Arkansas Public Employees Retirement System (APERS) any excess retirement contributions.

**No Findings or Recommendations.** The Arkansas Lottery Commission received a warrant in the amount of \$34,204.30 from the Arkansas Public Employees Retirement System on March 25, 2011. This payment represented the return of excess retirement contributions paid by the Lottery (employer matching) in regards to the Executive Director's salary.

## Arkansas Lottery Commission – Internal Audit

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

#### Status Report – June 6, 2011

#### Legislative Audit Management Letter Finding #5:

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

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

**Arkansas Lottery Commission – Internal Audit**

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

**Status Report – June 6, 2011**

**Legislative Audit Recommendation for Management Letter Finding #5:**

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

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

**Audit Objective #14**

Determine that the Lottery has adequate written policies and procedures for employee travel expenditures.

**No Findings or Recommendations.** The Lottery has established adequate written policies and procedures to govern employee travel expenditures (*Travel Expense Reimbursement Policy*).

**Audit Objective #15**

Determine that all travel expenditures are reimbursed in accordance with the Lottery's policies and procedures, adequately supported, and approved by the appropriate personnel. Prepare a monthly schedule of travel expenditures.

**No Findings or Recommendations.** Internal Audit reviewed the Arkansas Scholarship Lottery travel expenditures for the months of December 2010, January 2011, February 2011, March 2011, and April 2011 for compliance with the Lottery's policies and procedures, adequate supporting documentation, and proper authorization. No reportable exceptions were noted. Internal Audit will continue to regularly review Lottery travel expenses and prepare monthly schedules of employee travel reimbursements as requested by the Arkansas Lottery Commission.

## Arkansas Lottery Commission – Internal Audit

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

#### Status Report – June 6, 2011

##### **Legislative Audit Management Letter Finding #6:**

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

##### **Legislative Audit Recommendation for Management Letter Finding #6:**

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

##### **Audit Objective #16**

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

##### **Status as of June 6, 2011**

##### **Audit fieldwork complete – No findings or recommendations**

Internal Audit reviewed payroll records for retroactive payments to employees involving position reclassifications. In addition, Internal Audit inquired of appropriate Lottery personnel regarding retroactive payments to Lottery employees. No instances of improper retroactive payments were noted.

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Audit Objective #17**

Determine if the Lottery management's amendment of the personnel action forms (administrative error correction) resolves Legislative Audit's finding and recommendation.

#### **Status as of June 6, 2011**

##### Audit fieldwork in progress

- Per Legislative Audit's recommendation, Lottery management submitted a memorandum to the Department of Finance and Administration – Office of Personnel Management dated February 15, 2011 requesting a review of the actions taken by the Lottery's Human Resources Division in regards to the granting retroactive pay to two employees.
- The Department of Finance and Administration – Office of Personnel Management responded in a letter dated February 17, 2011 indicating that there was not enough information provided to address the issue.
- Lottery management provided the Department of Finance and Administration – Office of Personnel Management additional information regarding the retroactive payments on June 3, 2011.
- Lottery management maintains that the two employees in question were legally entitled to the funds received.
- Internal Audit will continue to monitor this finding.

#### **Audit Objective #18**

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

#### **Status as of June 6, 2011**

##### Audit fieldwork planned (if necessary)

Internal Audit will perform the audit fieldwork associated with this objective when a final resolution has been reached regarding the Lottery seeking recovery of the retroactive payments noted in the finding.



## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Legislative Audit Management Letter Finding #7:**

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

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

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

#### **Legislative Audit Recommendation for Management Letter Finding #7:**

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

**Arkansas Lottery Commission – Internal Audit**

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

**Status Report – June 6, 2011**

**Audit Objective #19**

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

**Status as of June 6, 2011**

Audit fieldwork complete – No findings or recommendations

The administrator rights associated with the financial accounting software were assigned to an individual outside the Lottery's Finance Department. Therefore, the Lottery's Chief Financial Officer no longer has the capability to delete transactions entered into the accounting system or the ability to activate or deactivate the "delete" function for any user, including himself.

**Audit Objective #20**

Determine if Lottery management has upgraded current payroll software or implemented new payroll software to ensure that the capability exists to present all applicable deductions on an employee's remuneration statement.

**Audit Objective #21**

Determine if Lottery management has upgraded current payroll software or implemented new payroll software to prevent or detect a salary overpayment for a position's grade and to ensure that the maximum number of employees authorized is not exceeded.

**Status as of June 6, 2011**

Audit fieldwork planned

The Department of Finance and Administration (DFA) presented a proposal for integration of all of the Lottery's accounting functions into AASIS on May 27, 2011. Lottery management plans to present DFA's proposal and other options concerning accounting software to the Arkansas Lottery Commission.

## Arkansas Lottery Commission – Internal Audit

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

#### Status Report – June 6, 2011

#### **Legislative Audit Management Letter Finding #8:**

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

#### **Legislative Audit Recommendation for Management Letter Finding #8:**

We recommend the Agency strengthen internal controls over cash receipts.

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

#### **Audit Objective #22**

Determine that the Lottery has adequate written policies and procedures for the cash receipting process.

**No Findings or Recommendations.** The Lottery has established adequate written policies and procedures to govern cash receipts (*Check and Monetary Receipt Policy*).

#### **Audit Objective #23**

Determine that cash receipts are processed in accordance with policies and procedures, deposited in a timely manner, and properly recorded in the Lottery's general ledger.

**No Findings or Recommendations.** Based on a test of transactions conducted by Internal Audit, cash receipts are processed in accordance with the *Check and Monetary Receipt Policy*, deposited in a timely manner, and properly recorded in the Lottery's general ledger.

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### Legislative Audit Management Letter Finding #9:

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

#### Legislative Audit Recommendation for Management Letter Finding #9:

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

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

#### Audit Objective #24

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

**No Findings or Recommendations.** Lottery management has established adequate written policies and procedures to govern disbursements (*Purchasing and Invoice Payment Policy*).

#### Audit Objective #25

Determine that cash disbursements are processed in accordance with policies and procedures, adequately supported, reviewed and approved prior to the disbursement of funds, and properly recorded in the Lottery's general ledger.

**No Findings or Recommendations.** Based on a test of transactions conducted by Internal Audit, cash disbursements are processed in accordance with the *Purchasing and Invoice Payment Policy*, adequately supported, reviewed and approved prior to the disbursement of funds, and properly recorded in the Lottery's general ledger.

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Legislative Audit Management Letter Finding #10:**

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

#### **Legislative Audit Recommendation for Management Letter Finding #10:**

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

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

#### **Audit Objective #26**

Determine that the Lottery and the instant ticket game vendor have clarified the calculation for the "Points for Prizes" fee.

**No Findings or Recommendations.** Scientific Games provided a formula for the calculation of the Points for Prizes in a document dated February 1, 2011. Lottery management concurs with the formula.

#### **Audit Objective #27**

Determine that the Lottery is remitting to the instant ticket game vendor the correct amount for the "Points for Prizes" fee.

**No Findings or Recommendations.** Based on a test of transactions conducted by Internal Audit, the billing amount for the Points for Prizes is being calculated in accordance with the formula agreed upon by Lottery management and Scientific Games.

## Arkansas Lottery Commission – Internal Audit

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

Status Report – June 6, 2011

#### **Legislative Audit Management Letter Finding #11:**

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

#### **Legislative Audit Recommendation for Management Letter Finding #11:**

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

**NOTE – This finding was cleared by Internal Audit on May 9, 2011.**

#### **Audit Objective #28**

Determine that the Lottery has adequate written policies and procedures concerning personal vehicle mileage reimbursements for Marketing Sales Representatives.

**No Findings or Recommendations.** The Reimbursement for Use of Privately Owned Vehicle section of the Lottery's *Travel Expense Reimbursement Policy* provides guidance for Marketing Sales Representatives in regards to personal vehicle mileage reimbursements.

## Arkansas Lottery Commission – Internal Audit

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

#### Status Report – June 6, 2011

#### Audit Objective #29

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

#### **No Findings or Recommendations.**

- Lottery management held a training session on March 2, 2011 concerning the preparation of the Mileage Log and Reimbursement Form utilized by the Lottery's Marketing Sales Representatives to claim reimbursement for the use of privately owned vehicles.
- Monthly schedules detailing Lottery Marketing Sales Representatives privately owned vehicle reimbursements are prepared by Internal Audit and provided to the Arkansas Lottery Commission.
- Internal Audit conducted a review of Lottery Marketing Sales Representatives privately owned vehicle reimbursements paid during April 2011. Based on our review, the finding is being cleared as of May 9, 2011. Considerable improvements were noted. Internal Audit will continue to periodically review the Lottery Marketing Sales Representatives privately owned vehicle reimbursements.

**Arkansas Lottery Commission – Internal Audit**

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

**Status Report – June 6, 2011**

**Audit Objective #30**

Determine that the Lottery is not reimbursing Marketing Sales Representatives for commuting from their personal residence to their assigned territory.

**No Findings or Recommendations.**

- Per consultation with the Department of Finance and Administration, Lottery Management has established a policy stating that all Marketing Sales Representatives whom reside outside their territory will be assigned an official station at the point they cross the county line entering their territory. Therefore, commuting mileage will not be reimbursed to Marketing Sales Representatives for travel to and from their personal residence outside of their assigned territories.
- Based on Internal Audit review of Lottery Marketing Sales Representatives privately owned vehicle reimbursements and consultation with appropriate Lottery staff, all Marketing Sales Representatives whom reside outside their territory have been assigned an official station at the point they cross the county line entering their territory.