

## MINUTES

### **ARKANSAS LOTTERY COMMISSION**

**Monday, July 15, 2013**

**10:00 a.m.**

**124 West Capitol Avenue, Third Floor  
Little Rock, Arkansas**

#### Call to Order

Chairman George Hammons called the meeting to order. Commissioners Steve Faris, Smokey Campbell, Ben Pickard, Dianne Lamberth, Raymond Frazier, Bruce Engstrom and Mark Scott were also present. Staff members present included Director Bishop Woosley, Jean Block, Matt Brown, Maria Craig, Patti Vick, Lance Huey, Jerry Fetzer, Robert Stebbins, Mike Smith, Jeremy Smith, and Terry Williams.

#### Executive Session

Commissioner Campbell moved that the ALC convene into executive session to discuss employee discipline. Commissioner Faris seconded the motion, which passed without dissent.

#### Meeting Reconvened

The regular commission meeting reconvened at 11:18. Chairman Hammons reported that no action was taken during the executive session.

#### Approval of Minutes

The next order of business was the approval of the minutes of the meetings held on June 24 and June 26, 2013. Commissioner Faris made a motion to approve the June 24 minutes. The motion was seconded by Commissioner Campbell, and the minutes were approved unanimously. Commissioner Campbell moved to approve the June 26 minutes, seconded by Commissioner Lamberth, and these were also approved unanimously.

#### Report from the Internal Auditor

Mr. Brown gave a status report on the FY 2013 Internal Audit Plan (in file). There remained only three projects on which to report, two that were substantially complete and for which reports were expected to be issued within a week, and one project that will continue into FY 2014 due to the timing of the CAFR compilation and finalization.

#### Report from the Director

Director Woosley reported to the commissioners (report in file) that June 2013 was approximately \$2.5 Million below the revenues of June 2012, primarily because the instant ticket sales were down. Commissioner Pickard asked if there was any explanation as to why sales in instant tickets were down 9%. Director Woosley responded that instant ticket sales had been down all year, and June 2013 continued to reflect that trend.

On the Comparative Income Statement, Actual versus Budgeted, the report reflected that sales of instant tickets were 25% less than anticipated. Net proceeds for June 2013 exceeded what had been forecast because unclaimed prizes for the year of \$5.04 Million were added.

The largest majority of decreased instant ticket sales occurred in the first four or five months of the fiscal year and that trend has stabilized. Online ticket sales were up 3.3% over last year, but less than budgeted because of the under-performance of Mega Millions. Director Woosley added that there will be changes, in October, to the Mega Millions matrix which are designed to create bigger jackpots, thereby stimulating sales.

Net proceeds for the year were \$89.9 Million, approximately \$87,000 less than the revised 2013 estimate of \$90 Million.

Director Woosley also presented an Industry Sales Comparison, which reflected that Arkansas continues to rank high in per capita sales, as well as in per capita transfers.

Director Woosley discussed the Remmele Mazyck theft case, commending the staff for the man-hours involved in working with federal employees. He assured the commissioners and public that such an incident would never happen again, adding that it was theft by an individual who had stolen from the agency from the very beginning. Policies and procedures have been reviewed and changes have been made accordingly.

Commissioner Lamberth asked Internal Auditor Brown if he was comfortable with the corrective changes that had been made, to which Mr. Brown affirmatively replied, adding that the key was stopping the sale of promotional tickets.

Chairman Hammons stated that he wished to express his thanks to the Director and the staff for the way the situation was handled.

#### Reports from ALC Committees

Commissioner Campbell, chair of the Audit and Legal committee, reported that the committee had met on July 12, 2013, and officers had been elected. Commissioner Campbell would continue as chair and Commissioner Pickard had been elected as vice chair. Commissioner Campbell called on Mr. Brown to give a brief synopsis of the proposed FY 2014-2016 Audit Plan, which had been presented to the committee on July 12. Mr. Brown reported that two audits were moved from FY 2015 to FY 2014 and two new annual audits had been added to the plan. Commissioner Campbell moved to approve the FY 2014-2016 Audit Plan as presented, Commissioner Engstrom seconded the motion, and the motion was approved unanimously.

Commissioner Pickard reported that the Personnel committee met at 9:45 on July 15 to elect officers. Commissioner Pickard was elected as Chairman of the committee and Commissioner Lamberth was elected as Vice Chair.

Commissioner Frazier reported that the Higher Education committee met at 9:30 on July 15 for the purpose of electing officers. Commissioner Frazier was elected to continue as Chair of the

committee and Commissioner Scott was elected to serve as Vice Chair. Commissioner Frazier also reported that the committee asked that Director Woosley contact ADHE Interim Director Broadway to ask him to give a presentation on scholarships in August or September.

#### Other Business

Chairman Hammons recognized Commissioner Pickard, who thanked Commissioner Faris for his service on the Arkansas Lottery Commission. He added that he was pleased that Commissioner Faris would be representing the state of Arkansas on another very important commission.

Director Woosley announced that Scientific Games had agreed to match Intralot's donation of \$20,000. The total of \$40,000 would be applied toward the Arkansas Upward Bound program. He stated that the agency would move forward and report back to the Commission as events develop.

#### Meeting Dates

The next Commission meeting was set for 10:00 a.m., Monday, August 26, 2013.

Commissioner Lamberth announced that the Vendor committee would meet at 9:30 a.m. on August 26.

Commissioner Campbell stated that the Retail and Marketing committee would meet immediately after the August 26 Commission meeting.

There being no further business, the meeting was adjourned.

**Arkansas Lottery Commission  
Monthly Internal Audit Update  
August 26, 2013**

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**Arkansas Lottery Commission  
FY 2013 Internal Audit Plan  
Status Report  
August 26, 2013**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
32	Audit	Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	Complete	<b>Status Update:</b> Report issued on July 18, 2013. No issues or observations reported.	-
33	Audit	Employee Travel Reimbursements	Controls and procedures surrounding employee travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	Complete	<b>Status Update:</b> Report issued on August 8, 2013. See Page 5 for additional discussion.	-
36A	Audit	Financial Accounting & CAFR	Controls and procedures surrounding production of the external financial statements, related notes to the statements, and other items/schedules included in the CAFR.	In Progress	<b>Status Update:</b> Fieldwork began week of May 20, 2013. Aspects of fieldwork expected to continue through August / September, due to timing of CAFR compilation and finalization.	60
<b>Total Estimated Hours to Complete FY 2013 Plan</b>						<b>60</b>

Notes

<sup>1</sup>Project Number based on number of all projects within the project universe. See Page 6 for complete, numbered project universe.

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

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

**Arkansas Lottery Commission  
FY 2014 Internal Audit Plan  
Status Report  
August 26, 2013**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
1	Audit	Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).	Scheduled		150
7	Audit	Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.	Scheduled		100
8	Audit	Points for Prizes & Play It Again	Controls and procedures surrounding the Points for Prizes and Play It Again programs.	Scheduled		240
9	Audit	IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.	Scheduled		160
13	Audit	In-State Draw Security & Controls	Controls and procedures that ALC draws are secure and reliable.	Scheduled		160
15	Audit	Instant Ticket Warehouse Operations	Controls and procedures surrounding the operation of the instant ticket warehouse, including procedures performed by ALC security and SGI personnel.	Planning Stage	<b>Status Update:</b> Fieldwork scheduled to begin next week.	280
17	Audit	Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	Scheduled		86
19	Audit	Human Resources Processes (Hiring, Benefits, Terminations, etc.)	Controls and procedures surrounding hiring and termination of employees, benefits administration, and general human resources functions.	Substantially Complete	<b>Status Update:</b> Reporting in final stages; report expected to be issued within a matter of days.	2
23	Audit	Claim Center Operations	Controls and procedures surrounding product sales, claim validations, and prize payments.	Scheduled		270
29	Audit	Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	Scheduled		130
30	Audit	Federal & State Tax Withholding & Reporting	Controls and procedures surrounding federal and state tax withholding, reporting to appropriate taxing authorities, and remittance of amounts owed.	Scheduled		215
38	Audit	IT General Controls	General IT/Computer-related controls that apply to all system components, processes, and data. ITGCs include logical and physical data center access, system development, change management, backup and recovery, and computer operation controls.	Scheduled		160
39	Audit	Disaster Recovery/Business Continuity	Controls and processes surrounding management response to any disruption or extended interruption of the Lottery's normal business operations and services.	In Process	<b>Status Update:</b> Fieldwork began week of August 5, 2013.	40
40A	Audit	Transparency Reporting & Compliance	Controls and procedures surrounding required reporting of information and compliance with requirements under Act 303 of 2011, that created the transparency.arkansas.gov website.	Scheduled		81

**Arkansas Lottery Commission  
FY 2014 Internal Audit Plan  
Status Report  
August 26, 2013**

Project Number <sup>1</sup>	Project Category	Project	Description	Status <sup>2</sup>	Comments	Estimated Remaining Hours <sup>3</sup>
10F	Audit Follow-Up	IT Gaming Quality Assurance Follow-Up Procedures	Follow-up procedures regarding observations from FY 2013 audit.	In Process	<b>Status Update:</b> Fieldwork began week of August 12, 2013.	30
14F	Audit Follow-Up	Back Office System (BOS) Administration Follow-Up Procedures	Follow-up procedures regarding observations from FY 2013 audit.	In Process	<b>Status Update:</b> Fieldwork began week of August 12, 2013.	120
36F	Audit Follow-Up	Accounting Close & Reporting Follow-Up Procedures	Follow-up procedures regarding observations from FY 2013 audit.	Scheduled		70
43	Consulting Project	Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA.	Scheduled		25
44	Consulting Project	Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.	Scheduled		32
45	Consulting Project	Financial Statements & CAFR Review (Annually)	Review of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.	Scheduled		30
46	Consulting Project	Instant Ticket Vendor Security Review (Annually)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.	Open	<b>Status Update:</b> Project involves outside consulting firm (Delehanty Consulting LLC); timing not yet communicated. Internal Audit involvement will consist of providing certain deliverables to the firm and analysis of results.	24
47	Audit	Instant Ticket Reconstructions (Annually)	Controls and procedures surrounding instant ticket reconstruction requests.	Scheduled		90

**Total Estimated Hours to Complete FY 2014 Plan**

**2,495**

**Notes**

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

**Arkansas Lottery Commission  
Employee Travel Reimbursements Audit  
FY 2013  
August 26, 2013**

General Information

- Audit centered on processes, controls, and procedures relative to the travel reimbursements.
- Fieldwork included transactions from July 1, 2012 through June 30, 2013.

Observations

- Reconciliation of amount requested for MUSL-reimbursed travel to amount subsequently received as reimbursement.
  - Travel costs incurred by the Director 2 to 4 times per year related to attendance at MUSL events / meetings eligible for reimbursement, at the discretion of MUSL.
  - Discrepancy between amount requested and amount received for Director's October 2012 trip to Miami noted; Internal Audit (IA) was able to reconcile and validate amount received through review of supporting documentation.
  - IA recommended that Management designate an individual to reconcile amount requested with amount received going forward, documenting an explanation of any differences.
  - Management has responded stating that an individual will be designated to perform such reconciliation going forward.
  - Follow-up audit procedures, when appropriate, are required in order for IA to consider the observation cleared.
- Inadvertent transposition and omission of information in MSR mileage reimbursement requests, resulting in lower reimbursement amounts than were due.
  - Over 1,000 requests for mileage reimbursement by the sales force each year, comprised of several line items of detailed mileage route information.
  - IA recommended that Management review current reimbursement review procedures to determine if any changes were warranted given tedious and time-consuming nature of review and validation procedures compared to any expected benefits obtained from making changes. Additionally, IA recommended that use of the "locked" reimbursement form that prevents editing of certain fields and performs automatic calculations be emphasized.
  - Management has responded stating that review procedure changes have been considered, but no changes are warranted and that use of the "locked" form has been emphasized.
  - Follow-up audit procedures, when appropriate, are required in order for IA to consider the observation cleared.

**Arkansas Lottery Commission  
Internal Audit Project Universe for FY 2014 - 2016 Audit Plan**

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

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
<b>Treasury - Fetzer/Parrish</b>						
23 Claim Center Operations	X		X			X
24 Cash Receipts					X	
25 Retailer Sweeps/Commissions/Accts Receivable & Adjustments	X					X
26 Cash Management				X		
<b>Financial Control - Fetzer/Williams</b>						
27 Fixed Assets					X	
28 Accounts Payable/Purchasing/Expenditures		X				X
29 Payroll & Leave			X			
30 Federal & State Tax Withholding & Reporting			X			
31 Unclaimed Prize Fund					X	
32 Education Trust Fund	X	X				
33 Travel Reimbursements	X	X				X
34 Revenue/Prize Payments/Reserves - Online Games	X					X
35 Revenue/Prize Payments - Instant Ticket Games	X					X
36 Accounting Close & Reporting			X			X
36A Financial Accounting & CAFR			X			X
37 Financial Planning/Budgeting		X				X
<b>Information Technology - Fetzer/Gilmore/Smith</b>						
38 IT General Controls			X			
39 Disaster Recovery/Business Continuity			X			X
40 IT Help Desk & Desktop Support					X	
40A Transparency Reporting & Compliance			X			X
<b>Internal Operations - Fetzer/TBD</b>						
41 Lottery Vehicles					X	
42 Building & Facility Maintenance					X	
<b>Recurring Projects</b>						
43 Facilitation/Review of Risk Assessment required by DFA (Biennially)	X		X			X
44 Gaming System SSAE 16 SOC1 Review (Annually)	X	X	X	X	X	X
45 Financial Statements & CAFR Review (Annually)	X	X	X	X	X	X
46 Instant Ticket Vendor Security Review (Annually)		X	X	X	X	X
47 Instant Ticket Reconstructions (Annually)			X	X	X	X