

RECORD

AUDIT AND LEGAL COMMITTEE

12.2.2013, 11:30 a.m., Little Rock Headquarters

The meeting was called to order by Committee Chair, Commissioner Campbell, who noted the presence of committee members Commissioners Baldrige, Lamberth and Pickard. Commissioners Hammons and Frazier were also present. Staff members present were ALC Director Woosley, Internal Auditor Brown and staff members Block, Huey, Fetzer, Craig, Vick and others.

Mr. Brown briefed the committee on the mid-year update to the FY 2014 Audit Plan (in file). He provided a FY 2014 Audit Plan progress report, stating that 9 of 23 planned projects were complete, one planned project was substantially complete, and two planned projects were currently underway. He reported that the audits were trending approximately 15% below budget and also trending approximately two weeks ahead of schedule.

Mr. Brown stated that due to those expected efficiencies and the timing of the planned projects, he was proposing additional audits to undertake, should the projects on the current plan be completed ahead of schedule. He explained that he did not want to reach a point later on in the year where his department had run out of things to do. The additional projects would include: Project No. 11, Instant Ticket Quality; Project No. 33, Travel Reimbursements; Project No. 32, Education Trust Fund; Project No. 18, Background Checks; and Project No. 27, Fixed Assets.

Mr. Brown also proposed that there be an update to the FY 2016 Audit Plan, adding a Process entitled *Major Procurement Process*. This additional process, which would entail a major contract renewal/proposal process audit, would coincide with the expected timing of contract renewal/Request for Proposal decisions relative to the ALC's two gaming vendors.

Commissioner Baldrige made a motion to approve the changes to the Fiscal Year 2014 through 2016 Audit Plans, as proposed. Commissioner Pickard seconded the motion and the motion passed unanimously.

Mr. Brown presented a SOC 1/SOC 2 Overview, explaining the differences between the two reports. He said that the SOC 1 reports are designed to focus on financial reporting risks, with the controls being specified by the service provider. The required focus of a SOC 1 report is Internal Control over Financial Reporting. A SOC 2 report is a detailed report for users, auditors and specified parties, designed to focus on AICPA Trust Services Principles, or "Best Practices," covering Security, Availability, Confidentiality, Processing Integrity, and Privacy. Either report can be applicable to a specific *period* of time (Type 2), or a specific *point* in time (Type 1).

Mr. Brown stated that Intralot currently provides SOC 1 coverage for ALC's Online Ticket and Gaming System Services, and that Scientific Games has provided SOC 2 coverage for Players' Club Services for FY 2014. The Scientific Games SOC 2 covers the AICPA Trust Services Principle of "Security" only.

Mr. Brown said that it is too late in the current fiscal year to consider additional coverage, but he recommended that ALC obtain in FY 2015 SOC 2 coverage for the Online Ticket and Gaming Services and for Players' Club Services. He advised that the FY 2015 SOC 2 coverage should take into consideration all AICPA Trust Services Principles (i.e., Security, Availability, Processing Integrity, and Privacy Trust Services). Regarding the Online Ticket and Gaming System Services, he advised that ALC consult with the Division of Legislative Audit to determine if ALC would need to obtain additional SOC 1 coverage in order to comply with their audit.

Commissioner Campbell asked if Mr. Brown could estimate the cost of the additional coverage. Director Woosley suggested that ALC (1) ask the Division of Legislative Audit if SOC 2 would comply with their audit requirements, and (2) discuss with the vendors what, if any, of the SOC 1/SOC 2 coverage they would be willing to provide. Depending on what sort of coverage the vendors would be willing to provide, another question would be whether or not Legislative Audit would have to bid out the services to auditing firms. Director Woosley assured Commissioner Campbell that he and Mr. Brown would soon be discussing the matter with the Legislative Auditors.

There being no further business, the meeting was adjourned.