

RECORD

AUDIT AND LEGAL COMMITTEE

4.22.2014, 9:00 a.m., Little Rock Headquarters

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

Proposed FY 2014 Audit Plan Change

Commissioner Campbell recognized Mr. Brown to present the first order of business, which was a proposed FY2014 Audit Plan change. The proposed change would defer Project No. 43, Facilitation/Review of Risk Assessment required by DFA biennially, to the FY 2015 Audit Plan. He explained that ALC management, with the consent of DFA's Internal Audit section, had deferred its risk assessment process until December 2014, and he was requesting that the committee approve the Internal Audit portion to coincide with ALC's new timeline. After lengthy discussion, **Commissioner Engstrom made a motion to allow Project No. 43 to be deferred to the FY 2015 Audit Plan. Commissioner Lamberth seconded the motion and the motion passed unanimously.**

IIA Path to Quality Presentation

The next order of business was a presentation by Mr. Brown of the Institute of Internal Auditors (IIA) Path to Quality Model. He reminded the commission that he had given the same presentation in 2013 and his intent today was to show the committee exactly where Internal Audit division currently stood relative to IIA's standards in comparison to last year. He reported that Internal Audit had completed Levels One and Two and was currently working on Level Three, the level required for Internal Audit to be considered "conforming" to the IIA standards. Step 1 of Level 3 was achieved this year; the Internal Auditor now holds the CIA (Certified Internal Auditor) designation and will soon meet the experience required to hold the CGAP (Certified Governmental Auditing Professional) designation. The three remaining Steps, Steps 2 through 4, are scheduled to be completed in 2014 in anticipation of an external assessment, or "Peer Review," as it is more commonly called. Mr. Brown explained that, through NASPL, there is a specific process for peer review. The process was designed by other state lotteries so that each individual lottery would have a minimal cost for its peer review done; lotteries pay only for the travel and lodging of the peer review team. He added that the expectation was that ALC would have to "give in kind," that is, ALC Internal Audit would participate in/volunteer time toward conducting peer reviews of other lotteries. He said that the first ALC peer review would have to be an onsite assessment by the review team, but there was also an option, every other time, to perform a self-assessment that is independently validated. He said that when Internal Audit is ready to make the request for a peer review, he will bring that to the committee for approval because there is a cost associated with it.

Internal Audit Charter Review

The next item on the agenda was the proposed revision of ALC's Internal Audit Charter (in file), which was last revised in March 2013. Mr. Brown said that all of the changes he was proposing were based on a Model Charter prepared by the Institute of Internal Auditors, which he did not

have access to last year. **Commissioner Engstrom made a motion to adopt the revised ALC Internal Audit Charter and Commissioner Lamberth seconded the motion. The motion passed unanimously.**

Claim Center Leases

Commissioner Campbell recognized Commissioner Baldrige to discuss the next item on the agenda, ALC Claim Center leases. Commissioner Baldrige stated that although she wholeheartedly supports the work of ALC Claim Center employees, ALC cannot control how many people walk through the doors of the Claim Centers. She said that she was very concerned that there was not enough traffic to justify the expense of the large spaces that ALC currently rents. She said that she did not see evidence that the Claim Centers were serving much of a public purpose.

Director Woosley said there was a Marketing Sales Representative (MSR) shortage, making it more of a hardship on MSRs to deliver Point-of-Sale (POS) materials every month. He said that management was considering supplementing the work of the MSRs, possibly utilizing Claim Center employees to deliver POS materials to retailers, as well as having the Claim Center employees get involved in retailer recruitment and lottery promotions in their areas. Director Woosley stated that management had been trying to work with the Bill & Hillary Clinton Airport in Little Rock about the possibility of selling lottery tickets or establishing a Claim Center there, but that so far it had been unsuccessful. He said that there was one basic concessions vendor, but they could not provide staffing nor a kiosk. Sales would have to occur behind the security gates, meaning it would be useless as a Claim Center. There were also parking issues. He added that they were looking into the Northwest Arkansas Airport, although it would probably have the same issues as the airport in Little Rock.

Mr. Woosley said that one of his biggest concerns was that if the Claim Centers were closed, there would be a perception that they were closed because there were no winners in those areas. He said that prior to drawing down and closing the Claim Centers, he would like detailed discussion. He proposed that ALC allow him to reach out to DFA's Building Authority for a possible office sharing agreement, or extend the Claim Center leases for another year.

Commissioner Engstrom made a motion to take no action on the Claim Centers. Commissioner Streett seconded the motion and the motion passed unanimously.

Advertising Contract Review and Proposal

The next item on the agenda was the discussion of the advertising contract review and proposal. Director Woosley reminded the committee that they had recently received an Advertising & Marketing RFP & Contract Summary (in file) by email. That summary provided section by section information on the current advertising and marketing contract with The Communications Group, as requested by the committee. Director Woosley also reminded the committee that the current advertising and marketing contract was due to expire in August of this year. He stated that management would like to retain the services of The Communications Group for at least the next year, because the terms of the contract for media buys were so reasonable, but that they would like to have a supplemental ad contract for other services. He asked that today the committee approve the concept of an RFQ for Advertising and Marketing Services. He said that

staff would have the actual RFQ prepared and sent to the Audit & Legal Committee prior to the next full commission meeting. If approved at that meeting, the RFQ would be presented to the commission. Upon the full commission's approval, the RFQ would then be immediately released. **Commissioner Lamberth made a motion to approve the concept of, and for staff to begin work on, the RFQ. Commissioner Baldrige seconded the motion. The motion passed unanimously.**

Other Business

Under Other Business, the last item on the agenda, Commissioner Campbell distributed a chart, Disbursements to Other State Agencies or State-Affiliated Entities (in file). Commissioner Campbell brought to the committee's attention that although ALC has paid over \$3 million to ADHE for administrative fees, there are few details as to how that money has been spent. Chief Fiscal Officer Fetzer stated that he would provide to the committee an ADHE report which details how that agency distributes the monies received from ALC. Commissioner Scott suggested that the Higher Education Committee possibly meet with ADHE Director Broadway to discuss ALC concerns.

Commissioner Engstrom noted that ALC has paid the Division of Legislative Audit (DLA) over \$455,000 for audits of daily draws for in-state games. He asked it was possible for ALC Internal Audit to take over that function. Director Woosley stated that his feeling was that DLA didn't actually like performing the function. Mr. Brown stated that the daily draw audits could be performed with in-house staff at considerably less expense. ALC was currently paying DLA \$80 an hour; Mr. Brown estimated that it would cost ALC \$60,000 to \$80,000 to perform the same function. CFO Fetzer stated that although the audits could legally be done internally, there could be perception issues. Director Woosley stated that outside audit agencies could perform biannual audits of the draws. After considerable discussion, **Commissioner Engstrom made a motion to increase staffing for Internal Audit, with an eye toward Internal Audit eventually performing the audits of daily draws for in-state games, while also addressing the concerns of CFO Fetzer. Commissioner Streett seconded the motion, and the motion passed unanimously, to be forwarded to the full commission for consideration.**

Mr. Brown informed the committee that he had received a response from DLA regarding the possibility of combining the objectives of the SOC I audit with those of a SOC II audit, specifically of audits done on Intralot's systems. DLA informed him ALC or Intralot would have to represent that if they took the combined approach, they would not be missing any of the testing performed in the existing SOC I audit. Intralot represented to DLA that that would be the case. He stated that DLA sent Director Woosley a letter (in file) confirming the same. The letter additionally stated that failure to adequately scope the SOC II audit could require additional financial audit work that could result in increased costs to the Lottery Commission. He asked the Committee for feedback on whether or not he should pursue the combination of SOC I and SOC II audits. Commissioner Engstrom said that from his point of view, the letter did not concern him.

There being no further business, the meeting was adjourned.