

RECORD

AUDIT AND LEGAL COMMITTEE

7.12.2013, 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 Commissioners Lamberth, Faris and Engstrom. Present by conference call were ALC Chairman Hammons and Commissioners Pickard and Scott. Also present were ALC Director Woosley, Internal Auditor Brown and staff members Block, Huey, Fetzer, Craig, Vick and others.

Chairman Campbell called for election of officers. Commissioner Pickard moved that Commissioner Campbell continue as Committee Chair and Commissioner Faris seconded the motion, which passed unanimously. Commissioner Lamberth nominated Commissioner Pickard to serve as the committee's Vice Chair and the motion passed without dissent.

Mr. Brown briefed the committee on the updated FY 2014-2016 Audit Plan (in file). He noted that two audits were moved from FY 2015 to FY 2014 due to expected efficiencies. There were two new annual audits added to the plan: (1) Transparency Reporting and Compliance and (2) Instant Ticket Reconstruction Process. Additionally, the Instant Ticket Security audit was changed from biennial to annual.

Mr. Brown briefed the committee on hot topics in the auditing industry. These included the impact of Social Media (2015 plan); the impact of mobile applications; the impact of new and/or changing products; and the impact of Service Organization (SOC1/SOC2) audits. He explained the distinction between SOC1 and SOC2 audits: SOC1 audits deal with controls that the Service Organization (i.e., the vendor) has in place relative to financial reporting. SOC2 audits include, the operational controls the Service Organization has in place, but also may overlap in the financial reporting area. Mr. Brown said that currently there is a big debate in his community about whether or not lotteries should include SOC2 audits as additional assurance – and there is also a debate about who should pay for them. There are also concerns that Legislative Audit would not accept SOC2 alone because it does not conform to their reporting standards. Discussion followed.

Commissioner Engstrom asked that the legal or financial department walk Audit & Legal committee members through all the steps of vendor contracts so they could have a solid understanding of them prior to the development of RFPs over the next few years. Commissioner Pickard said that he would like to see some sort of training in place and asked that Commissioner Engstrom create a program. Commissioner Engstrom accepted the challenge and Director Woosley said he could come through him for guidance.

Commissioner Engstrom moved to accept the Three-Year Audit Plan Update and bring it up to the full commission. Commissioner Lamberth seconded the motion and the motion passed unanimously.

There being no further business, the meeting was adjourned.