

MINUTES  
ARKANSAS LOTTERY COMMISSION  
Monday, October 17, 2011  
National Park Community College  
Eisele Auditorium  
Dierks Center for Nursing and Health Sciences  
Hot Springs, AR

Chairman Lamberth called the meeting to order. Commissioners Pickard, Campbell, Engstrom, Faris, Frazier and Hammons were also present. The ASL was represented by Interim Director Baldrige, Internal Auditor Hyde, Bishop Woosley, Lance Huey, Patricia Vick, and Susan Chamberlain.

The first order of business was consideration of the draft minutes of the September 19, 2011, meeting. By a motion of Commissioner Pickard to approve and seconded by Commissioner Engstrom, the minutes were approved without dissent.

The next item on the agenda was a report from the Interim Director. She noted that sales were up about 4.5 million dollars over last September, but that overall, there was little change from last year. Commissioner Engstrom pointed out that there would be some period in which the salaries reported would take a big drop because of the current vacancies in the upper management positions. Commissioner Campbell asked if there would be a consideration of a total restructure of the organization that could alter one or more of the vacant positions. Ms. Baldrige stated that it was her understanding that those positions were to remain vacant until a permanent director was hired.

Commissioner Hammons was recognized to give a report from the Personnel Committee. He thanked the ASL staff members for their outstanding presentations. He also extended thanks to Interim Director Baldrige, Patti Vick, and Susan Chamberlain for the work they did in putting together the combined Retreat/Commission meetings on October 16 and 17. He then called on Commissioner Faris, who made a motion to allow ASL staff to move forward and fill the Human Resources Generalist position that was vacant and to encourage OPM to expedite the request. Commissioner Hammons seconded that motion. There being no opposition, the motion carried.

The next item on the agenda was consideration of the ALC Director search. There was a discussion regarding finalization of the qualifications for the search. Commissioner Faris asked that he be given time to review the information in his agenda packet and bring the item up for discussion at the next ALC meeting, to which all present agreed. Chairman Lamberth then said that the commission would need to consider a posting date, or at least an approximate time table for posting for the Director's position. Discussion followed. Commissioner Pickard asked Chief Legal Counsel Woosley to research the previous search for a lottery director and to refresh the commission so that they could duplicate the process.

Internal Auditor Hyde was called upon by Chairman Lamberth to give his report. He said that virtually 100% of his time during the past month was spent working with Crowe Horwath and Legislative Audit on the Comprehensive Annual Financial Report, and that he had very little else to report. Chairman Lamberth then asked the Audit and Legal Committee if there was anything to report. Commissioner Pickard asked Internal Auditor Hyde to explain the process of the annual audit. Mr. Hyde told the commission that Legislative Audit had basically completed the audit and an exit conference would be called soon. After the exit conference was held, ALC

management would be given time for responses if there were any findings. The official audit would not be reported until November 10, the date of the Joint Legislative Audit Committee meeting. Commissioner Pickard added that the personnel involved in the exit conference would include himself, as Chair of the Audit and Legal Committee, as well as the Interim Director, the Chief Legal Counsel, and the Internal Auditor. The report would be released on November 9, the day before the Joint Legislative Audit Committee meeting, but could not become public record prior to the meeting.

Next on the agenda was consideration of the outside legal counsel RFQ. Commissioner Pickard read from the draft of the Audit and Legal Committee meeting minutes of October 7, 2011: "Commissioner Engstrom said that the committee previously agreed to recommend to the full commission the exploration of contracting with an outside legal counsel source, but that in order to clear up any confusion, he moved to approve the contracting of outside legal counsel and have the committee forward it to the full Commission. Commissioner Faris seconded the motion, and the committee unanimously approved the recommendation to contract for outside legal counsel be forwarded to the Commission." Commissioner Pickard made a motion to move the recommendation forward and Commissioner Engstrom seconded the motion. Chairman Lamberth opposed the motion, but the ayes carried and the motion passed.

There being no further business on the agenda, the meeting was adjourned.

**RETAILER ADVISORY BOARD APPOINTMENTS**  
**Commissioner John C. (Smokey) Campbell III, Chair, Arkansas**  
**Lottery Commission Retail Committee**  
**November 21, 2011**

The following five members of the Arkansas Lottery Commission's Retailer Advisory Board have expressed a desire to remain on the Board. These are all five of the current members whose terms expire on December 31. The terms are two years, and if reappointed these members will serve until December 31, 2013. There are 10 members of the Board, established by the Arkansas Scholarship Lottery Act to advise the Commission on retailer issues, to be appointed by the ALC Chair and confirmed by the Commission.

Richard King of Little Rock, E-Z Mart

Steve Lightle of Searcy, B&B Oil Company (Doublebees)

Felix Oliu of El Dorado, MurphyUSA

Harold Tunious of North Little Rock, D&J Mini-Mart

Bill Waite of Fayetteville, Dickson Street Liquor

**Arkansas**

 **Scholarship Lottery**

**Report, Interim Director**

**November 21, 2011**

# Comparative Income Statements

## October 2011 and 2010

### GAAP Basis Income

<u>Statement</u>	<u>October 2011</u>	<u>October 2010</u>	<u>Variance</u>	<u>Percentage Variance</u>
<b>REVENUES</b>				
Instant tickets	\$ 31,821,853	\$ 30,869,997	\$ 951,856	3.1%
Online Tickets	5,819,886	5,671,570	148,316	2.6%
Retailer app. fidelity	60,624	114,915	(54,291)	-47.2%
Interest Income	<u>27,083</u>	<u>31,988</u>	<u>(4,905)</u>	-15.3%
<b>TOTAL Revenues</b>	<b>37,729,446</b>	<b>36,688,470</b>	<b>1,040,976</b>	<b>2.8%</b>
<b>COSTS AND EXPENSES</b>				
Prizes net (-unclaimed)	25,180,906	22,765,759	2,415,147	10.6%
Retailer Commissions	2,118,196	2,049,818	68,378	3.3%
Gaming Contract Costs	2,004,143	2,922,703	(918,560)	-31.4%
Advertising	128,858	263,558	(134,700)	-51.1%
General and Administrative	502,381	572,275	(69,894)	-12.2%
Other Agency Services	<u>138,040</u>	<u>92,900</u>	<u>45,140</u>	48.6%
<b>TOTAL Costs and Expenses</b>	<b><u>30,072,524</u></b>	<b><u>28,667,013</u></b>	<b><u>1,405,511</u></b>	<b>4.9%</b>
<b>Net Income</b>	<b>\$ 7,656,922</b>	<b>\$ 8,021,457</b>	<b>\$ (364,535)</b>	<b>-4.5%</b>
 <b>Scholarship Percentage</b>	 <b>20.3%</b>	 <b>21.9%</b>		 <b>-1.6%</b>

# Comparative Income Statements October 2011

## Actual Versus Budget

<u>GAAP Basis Income Statement</u>	<u>October 2011 Actual</u>	<u>October 2011 Budget</u>	<u>Variance</u>	<u>Percentage Variance</u>
<b>Revenues</b>				
Instant tickets	\$ 31,821,853	\$ 29,982,939	\$ 1,838,914	6.1%
Online tickets	5,819,886	6,507,726	(687,840)	-10.6%
Retailer application, fidelity & service	60,624	67,037	(6,413)	-9.6%
Interest Income	<u>27,083</u>	<u>18,333</u>	<u>8,750</u>	<u>47.7%</u>
<b>Total Revenues</b>	<b>37,729,446</b>	<b>36,576,035</b>	<b>1,153,411</b>	<b>3.2%</b>
<b>Costs and Expenses</b>				
Prizes, net of unclaimed	25,180,906	23,564,545	1,616,361	6.9%
Retailer Commissions	2,118,196	2,044,743	73,453	3.6%
Gaming Contract Costs	2,004,143	1,862,176	141,967	7.6%
Advertising	128,858	375,000	(246,142)	-65.6%
General and Administrative	502,381	707,605	(205,224)	-29.0%
Services Provided By Other Agencies	<u>138,040</u>	<u>147,107</u>	<u>(9,067)</u>	<u>-6.2%</u>
<b>Total Costs and Expenses</b>	<b><u>30,072,524</u></b>	<b><u>28,701,176</u></b>	<b><u>1,371,348</u></b>	<b><u>4.8%</u></b>
<b>Net Income</b>	<b><u>\$ 7,656,922</u></b>	<b><u>\$ 7,874,859</u></b>	<b><u>\$ (217,937)</u></b>	<b><u>-2.8%</u></b>

# Percentage Comparative Income Statements

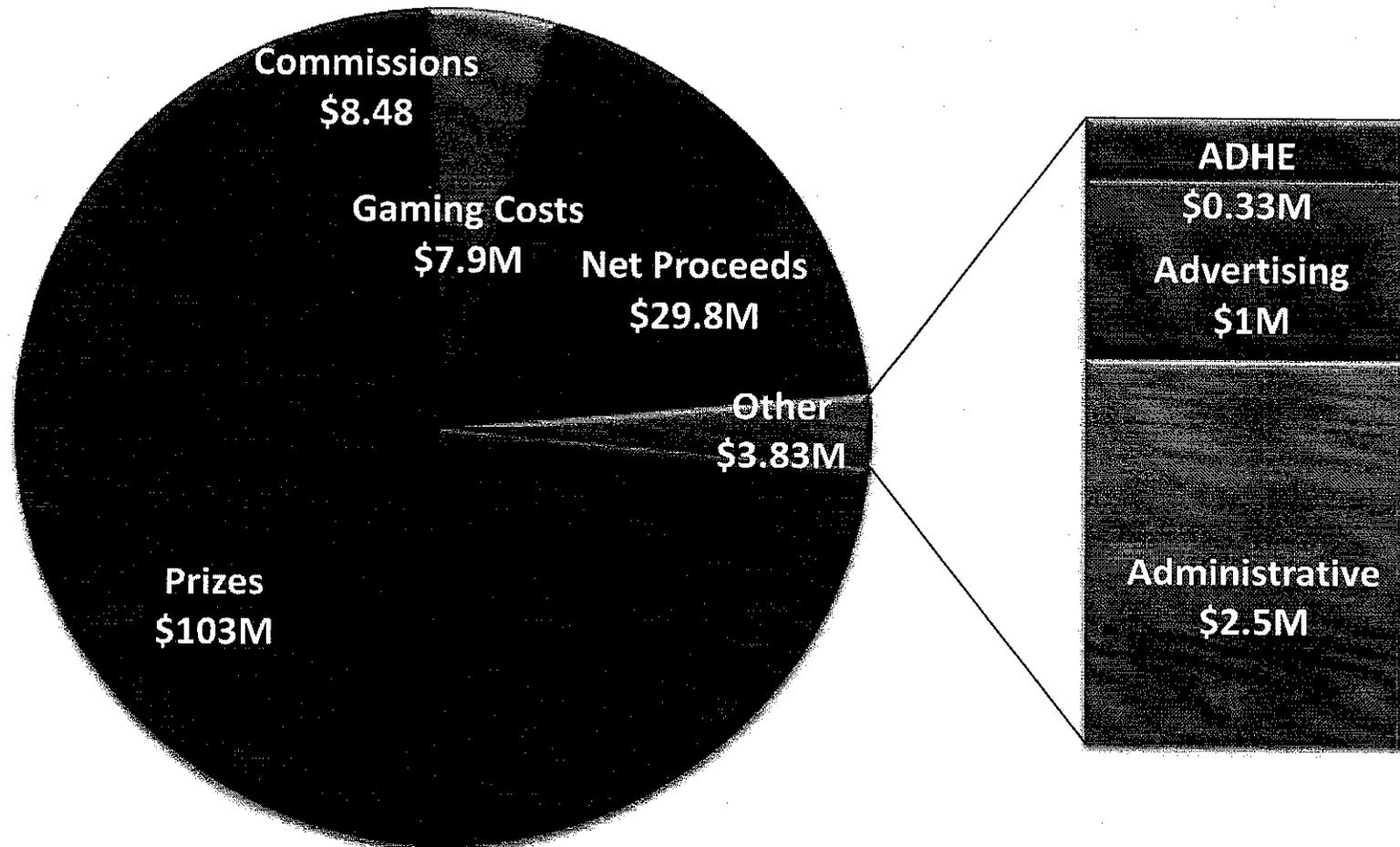
<b>GAAP Basis Income Statement</b>	<b>October 2011 <u>Actual</u></b>	<b>October 2011 <u>Budget</u></b>	<b>October 2010 <u>Actual</u></b>
<b>REVENUES</b>			
Instant tickets	84.3%	82.0%	84.1%
Online tickets	15.4%	17.8%	15.8%
Retailer application, fidelity & service	0.2%	0.2%	0.3%
Interest Income	<u>0.1%</u>	<u>0.1%</u>	<u>0.1%</u>
<b>TOTAL Revenues</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>
<b>COSTS, EXPENSES &amp; NET INCOME</b>			
Prizes, net of unclaimed	66.7%	64.4%	62.1%
Retailer Commissions	5.6%	5.6%	5.6%
Gaming Contract Costs	5.3%	5.1%	8.0%
Advertising	0.3%	1.0%	0.7%
General and Administrative	1.3%	1.9%	1.6%
Services Provided By Other Agencies	0.4%	0.4%	0.3%
<b>Net Income</b>	<b><u>20.3%</u></b>	<b><u>21.5%</u></b>	<b><u>21.9%</u></b>
<b>Total Costs, Expenses &amp; Net</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

# The Arkansas Lottery Dollar

## Four Months Ended Oct. 31, 2011

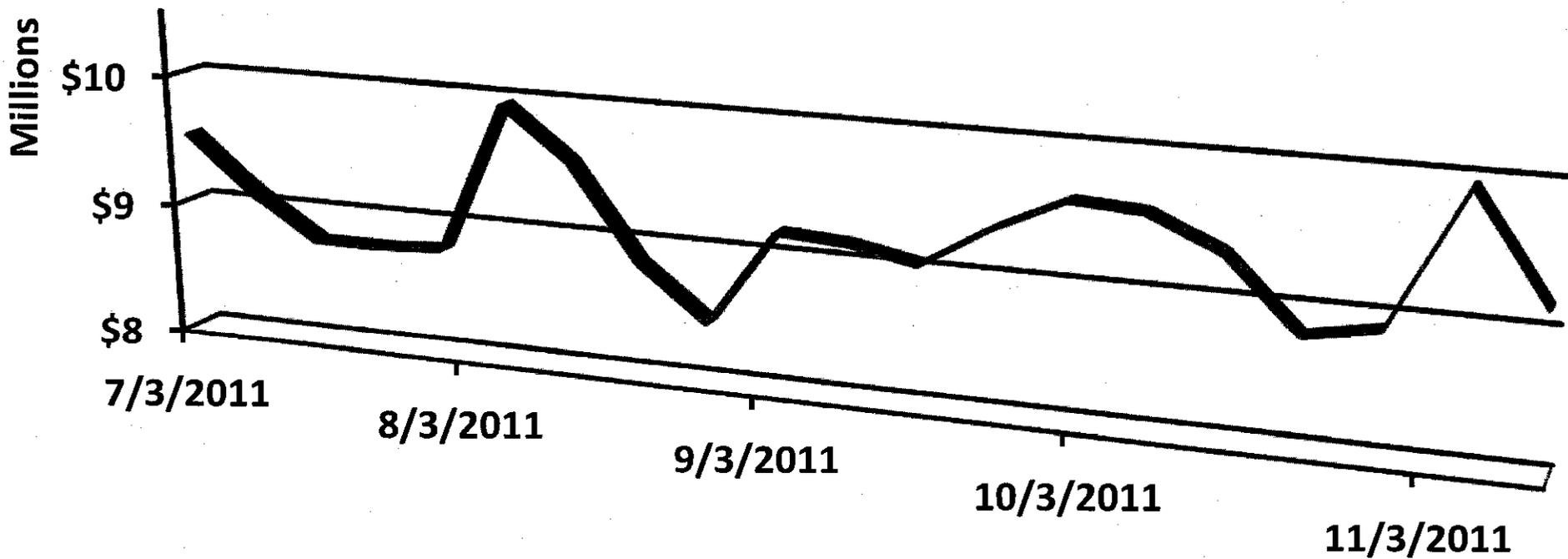
(Unaudited)

### Total Revenues \$ 150.6 Million



# Weekly Sales Trend

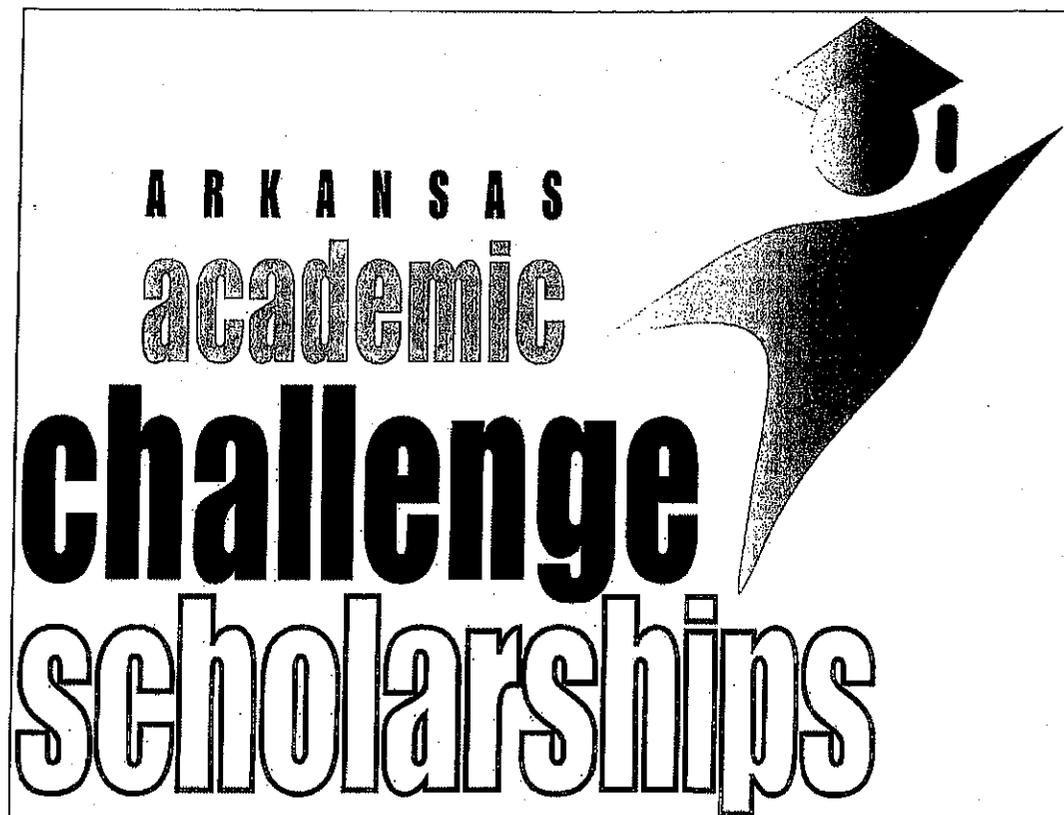
## 7/01/11 – 11/13/11



# FY 2012 ADHE Transfer Analysis

<u>Month</u>	<u>Actual Transfers</u>	<u>Budgeted Transfers</u>	<u>Over/Under Budget</u>	<u>Cumulative Balance</u>
July, 2011	\$7,146,103	\$ 7,760,277	\$614,174	\$614,174
August	\$7,543,554	\$ 7,661,733	\$118,179	\$732,353
September	\$6,973,180	\$ 7,466,008	\$492,828	\$1,225,181
October	\$8,133,706	\$ 8,205,900	\$72,194	\$ 1,297,375
November		\$ 7,740,766		
December		\$ 9,027,980		
January, 2012		\$ 9,003,536		
February		\$ 9,157,597		
March		\$ 10,501,849		
April		\$ 8,411,342		
May		\$ 9,434,088		
June		\$ 8,577,674		
<b>Totals</b>		<b>\$ 102,948,750</b>		

**Arkansas Department of Higher Education**



**Selected Academic Year 2012 Preliminary Data**

**2011-2012**

**November 20, 2011**

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
Scholarships by County  
Fall 2011**

County Name	New Traditional	Retained Traditional	Original Challenge	Current Achiever	Non Traditional	Total Awards
Arkansas	419	49	22	44	42	576
Baxter	131	96	33	41	75	376
Boone	145	90	27	47	95	404
Calhoun	26	20	5	8	1	60
Chicot	34	24	6	9	10	83
Clay	55	32	31	11	21	150
Cleveland	47	30	17	13	18	125
Conway	103	67	36	35	39	280
Crawford	316	180	90	97	87	770
Cross	86	39	26	32	23	206
Desha	63	24	19	18	15	139
Faulkner	612	342	155	363	239	1711
Fulton	62	33	27	16	22	160
Grant	67	46	21	29	36	199
Hempstead	85	54	19	8	34	200
Howard	60	44	24	13	25	166

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
Scholarships by County  
Fall 2011**

County Name	New Traditional	Retained Traditional	Original Challenge	Current Achiever	Non Traditional	Total Awards
Izard	48	41	29	7	26	151
Jefferson	291	178	73	92	143	777
Lafayette	22	14	7	6	7	56
Lee	34	8	12	4	7	65
Little River	50	25	6	11	10	102
Lonoke	334	204	68	146	122	874
Marion	57	24	15	19	36	151
Mississippi	164	79	33	28	34	338
Montgomery	38	15	15	5	27	100
Newton	35	20	20	4	20	99
Perry	60	32	16	12	16	136
Pike	71	33	19	9	17	149
Polk	94	55	46	15	40	250
Prairie	35	20	21	10	17	103
Randolph	78	58	42	15	37	230
Scott	45	27	23	2	30	127

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
Scholarships by County  
Fall 2011**

County Name	New Traditional	Retained Traditional	Original Challenge	Current Achiever	Non Traditional	Total Awards
Sebastian	549	337	162	247	187	1482
Sharp	80	39	37	12	30	198
Stone	53	29	27	6	22	137
Van Buren	57	34	25	10	17	143
White	330	209	130	93	123	885
Yell	81	66	22	28	24	221

Arkansas Department of Higher Education preliminary Academic Year 2012, unaudited. 11.20.2011

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
Scholarships by College and Institution  
Fall 2011**

Institution Name	New Traditional	Retained Traditional	Original Challenge	Current Achiever	Non Traditional	Total Awards
Arkansas Northeastern College	90	27	2	-	17	136
Arkansas State University Jonesboro	1,072	801	496	436	469	3,274
Arkansas State University Newport	72	30	7	1	34	144
Arkansas Tech University Ozark Campus	40	24	5	1	16	86
Black River Technical College	126	52	15	7	97	297
College of the Ouachitas	35	24		2	42	103
Crowley's Ridge College	31	22	4	8	3	68
Ecclesia College	4	5	1	2	1	13
Henderson State University	557	302	159	163	119	1,300
John Brown University	115	56	25	36	1	233
Mid South Community College	48	13	1	1	24	87
North Arkansas College	166	65	17	6	108	362
Ouachita Baptist University	244	154	62	116	216	792
Philander Smith College	28	10	7	9	43	97
Pulaski Technical College	195	98	11	11	32	347
Ryan Mountain Community College					440	440

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
Scholarships by College and Institution  
Fall 2011**

<b>Institution Name</b>	<b>New Traditional</b>	<b>Retained Traditional</b>	<b>Original Challenge</b>	<b>Current Achiever</b>	<b>Non Traditional</b>	<b>Total Awards</b>
South Arkansas Community College	35	24	2	2	42	105
Southern Arkansas University	311	193	106	90	95	795
UA Monticello College of Tech - Crossett	2	1	-	-	11	14
UA Community College Batesville	116	64	15	1	53	249
UA Community College Morrilton	182	91	9	4	89	375
University of Arkansas Medical Sciences			40	85	80	205
University of Arkansas Little Rock	584	367	175	228	567	1,921
University of Arkansas Pine Bluff	122	87	52	67	46	374
University of the Ozarks	87	56	38	31	5	217
<b>Total</b>	<b>11,954</b>	<b>6,926</b>	<b>3,205</b>	<b>4,368</b>	<b>4,815</b>	<b>31,268</b>

Arkansas Department of Higher Education preliminary Academic Year 2012, unaudited. 11.20.2011

**Arkansas Lottery Commission  
2011 - 2012 Internal Audit Plan  
Status Report  
November 21, 2011**

Project	Description	Status	Comments
Facilitate Lottery Risk Assessment required by DFA	Biennial request by DFA to identify risk to Lottery operations, likelihood of occurrence, impact on operations, and controls implemented by Lottery management to mitigate identified risk.	Planned	A letter dated October 3, 2011 from the Department of Finance and Administration indicated that the 2012 Risk Assessment will be due by March 30, 2012.
Gaming System SSAE 16 Review	Review Gaming System SSAE 16 Report prepared by independent auditors.	Complete	The Service Auditor's Report for Arkansas Scholarship Lottery Game Transaction Processing (Report of Controls Placed in Operation and Tests of Operating Effectiveness) completed by McGladrey & Pullen, LLP for the period July 1, 2010 to June 30, 2011 was issued August 26, 2011.
Financial Statements & Comprehensive Annual Financial Report (CAFR) Review	Review of Fiscal Year 2011 Financial Reports.	Complete	The Comprehensive Annual Financial Report (CAFR) including the audited financial statements for the Lottery was released on November 10, 2011.

**Arkansas Lottery Commission  
2011 - 2012 Internal Audit Plan  
Status Report  
November 21, 2011**

Project	Description	Status	Comments
Instant Ticket Quality Reports	Annual review of independent quality control reports of Arkansas Scholarship Lottery instant tickets.	Fieldwork in Progress	Three independent quality control reports of ASL instant tickets have been received and will be reviewed by Internal Audit. Estimated completion date December 2011.
Revenue/Prize Payments - Instant Ticket Games	Annual review of instant ticket game sales, prize expenses, prizes payable, and unclaimed prizes.	Fieldwork in Progress	
Retailer Sweeps	Annual review to assess the existence and effectiveness of the controls and processes established by management of the Arkansas Scholarship Lottery to ensure the proceeds from on-line and instant ticket lottery game sales are collected in full and in a timely manner.	Fieldwork in Progress	
Revenue/Prize Payments/Reserves - Online Games	Annual review of online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes.	Fieldwork in Progress	Estimated completion date December 2011.
High-Tier Prize Payments Documentation	Biannual review of the processing and supporting documentation of high-tier prize payouts.	Fieldwork in Progress	Estimated completion date December 2011.
Education Trust & Shortfall Reserve Funds	Review transactions, confirm balance, and ensure sufficient collateralization. Provide Arkansas Lottery Commission with a schedule of Educational Trust Account transactions.	Monthly	June 2011, July 2011, August 2011, September 2011, and October 2011 reviews complete. No Exceptions Noted.
Employee Travel Reimbursement	Review employee travel reimbursements. Ensure sufficient documentation is obtained and confirm reimbursement amount. Provide Arkansas Lottery Commission with a schedule of employee travel.	Monthly	

**Arkansas Lottery Commission  
2011 - 2012 Internal Audit Plan  
Status Report  
November 21, 2011**

Project	Description	Status	Comments
MSR Personal Vehicle Mileage Reimbursement	Review MSR personal vehicle mileage reimbursements. Ensure sufficient documentation is obtained and confirm reimbursement amount. Provide Arkansas Lottery Commission with a schedule of MSR personal vehicle mileage.	Monthly	
Licensing - Applications	Review the internal controls surrounding the retailer licensing process (applications).	Fieldwork in Progress	
Licensing - Renewals	Review the internal controls surrounding the retailer licensing process (renewals).	Fieldwork in Progress	
Prize Validation & Payments	Review of the internal controls surrounding high-tier prize validations and payments.	Planned	
Instant Ticket Lottery Game Services Contract Compliance	Contract compliance audit of the Instant Ticket Lottery Game Services Contract (Scientific Games).	Fieldwork in Progress	
Back Office System (BOS) Administration (See Note 1)	Internal control review of the Lottery's Back Office System's (BOS) Administration functions.	Planned	
Instant Ticket Game Loads (See Note 1)	Review of the internal controls surrounding the Instant Game Management System (IGMS), including access controls and instant ticket game load, testing, and processing.	Planned	

**Note 1:** The inclusion of this project as part of the Internal Auditor is dependent on the availability of a qualified part-time auditor to assist Internal Audit.

Sen. Bill Pritchard  
Senate Chair  
Rep. Tim Summers  
House Chair  
Sen. David Wyatt  
Senate Vice Chair  
Rep. Toni Bradford  
House Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Arkansas Lottery Commission  
and Members of the Legislative Joint Auditing Committee

We have audited the financial statements of the major fund of the Arkansas Lottery Commission (the "Agency"), a Commission of Arkansas State government, as of and for the year ended June 30, 2011, which collectively comprise the Arkansas Lottery Commission's basic financial statements and have issued our report thereon dated October 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 through 2011-4 to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### SCHEDULE OF FINDINGS AND RESPONSES

2011-1 Ark. Code Ann. § 23-115-205(a)(12) provides that the Commission has powers necessary to select and contract with vendors. Additionally, Ark. Code Ann. § 23-115-701(c)(2) requires the Commission to solicit competitive bids for major procurement contracts, which Ark. Code Ann. § 23-115-103(14)(A) defines as a contract for a gaming product or service costing more than \$75,000. The Commission awarded the comprehensive advertising, marketing, and media service contract to a vendor, for which JM Associates, Inc. was a subcontractor. Subsequently, without a contract, the Agency paid JM Associates, Inc. \$91,740 for producing commercials for broadcast, thus circumventing procurement law.

We recommend the Agency seek advice from the Arkansas Lottery Commission and the Attorney General as to the legality of this arrangement.

Management response: Following discussion with the Division of Legislative Audit, the Arkansas Lottery Commission (ALC) reverted to the previous procedure for procuring projects from JM Associates, Inc. through its Advertising, Marketing and Media Services vendor, The Communications Group. This change took place in August 2011. All future project procurement and invoicing will occur through The Communications Group.

2011-2 Questionable travel costs noted in the prior year audit resulted with an in-depth analysis of employee travel reimbursement (TR-1) forms and supporting documentation. This review disclosed the following:

- A. Based on travel reimbursement credits received by the Agency from the instant ticket vendor, seven instant ticket planning sessions in Alpharetta, Georgia, appeared to have been attended by management. Because the Agency did not have adequate controls relating to vendor travel reimbursements, the vendor's Director of Security was contacted to verify the attendance of management at these planning sessions, each scheduled for three days. Information obtained indicated the following:
- For three of the seven instant ticket planning sessions, there was no record of any Agency representatives in attendance; however, the instant ticket vendor's Customer Service Team Leader confirmed attendance at one of these sessions.
  - For three of the seven instant ticket planning sessions, Agency representatives signed in for only one of the three days.
  - One instant ticket planning session coincided with the instant ticket vendor's annual security symposium in Atlanta, Georgia; therefore, no attendance information was available for this planning session.

- B. Based on analysis of vendor reimbursed travel costs and the number of business trips that resulted in the Executive Director or Vice-President of Gaming flying home, we question whether some travel was reasonable and necessary. While the Agency's employee manual requires 80 hours to constitute a full pay period, it appears the Executive Director and Vice-President of Gaming worked alternate work schedules based on analysis of travel. However, a policy authorizing alternate work schedules did not exist, and a review of leave records was inconclusive as to whether proper leave time was recorded.
- The Executive Director traveled to South Carolina, where he maintains a residence, 61 of the 261 working days in fiscal year 2011. In addition, for 10 of 16 business trips the Executive Director flew to South Carolina on the last day of the trip. As a result, the Executive Director was in non-business travel status for all or part of 71 days, or 27% of work days.
  - The Vice-President of Gaming traveled to either South Carolina or Maine, where he maintains residences, 48 of the 261 working days in fiscal year 2011. In addition, for seven of 10 business trips, the Vice-President of Gaming flew to South Carolina on the last day of the trip. As a result, the Vice-President of Gaming was in non-business travel status for all or part of 55 days, or 21% of work days.
- C. Department of Finance and Administration (DFA) travel regulations require that the administrative head of each agency ensure all supporting documentation is maintained in connection with business travel. However, examination of supporting documentation indicated the following:
- Several instances of redacted information, including portions of flight schedules, addresses, and payment methods, were found.
  - Supporting documentation for numerous TR-1 forms contained conflicting information.

We recommend management review DFA travel regulations to ensure travel reimbursements are adequately explained and documented. The Commission should also review the matters discussed above and assist the Agency in implementing sound business practices that strengthen controls over travel, vendor travel reimbursements, and alternate work schedules.

Management response: **A:** The Agency will review travel policies and procedures related to vendor funded travel reimbursements to determine if a more comprehensive or restrictive policy is necessary to satisfy the concerns of the Division of Legislative Audit. **B:** The ALC will require future directors to notify the Chairman of the Commission in writing (either by hard copy or electronic mail) prior to the use of annual leave for absences from work. Further, the ALC will review its own personnel policies to determine if alternate work schedules or flex-time working arrangements similar to those used of other state agencies are advisable in light of the unique nature of this agency. **C:** The ALC will revise its current travel policy to require that all travel related information must be submitted in un-redacted form in order to be eligible for reimbursement.

2011-3

The Control Objectives for Information and related Technology (COBIT) Deliver and Support 12 requires that physical access controls to Agency facilities be regularly reviewed to determine proper functioning. A review indicated the following deficiencies:

- Numerous vendors and auditors had physical access to Agency offices; however, Agency security did not periodically verify that these individuals still required access, creating the risk that unauthorized individuals may access Agency facilities.
- Although policy requires data retention for 5 years, the Agency maintained records of key card door access for only 30 days, which did not sufficiently allow for examination in the event of a security breach.

We recommend the Agency strengthen security controls and retain an electronic record of key card door access for 5 years to comply with the Agency's internal policy GS10010.

Management response: **Bullet One:** The Security Department, via email, will request a monthly list from each vendor/auditor detailing employees who require access to ALC facilities and the back office system (BOS). Any person with access who is not listed by the vendors/auditors in their monthly response will be deleted from access to ALC facilities/BOS. **Bullet Two:** A review of the Agency's Records Retention Policy was completed on September 13, 2011, with the staff tasked with maintaining these records. The key card door access records have been retained in accordance with the policy since that date. ALC Security data shall be stored and retained for at least five (5) years in accordance with ALC Record Retention Policy.

2011-4

The Control Objectives for Information and related Technology (COBIT) Deliver and Support 5 - Ensure Systems Security requires logical access controls be in place to safeguard information against damage, loss, or unauthorized use, disclosure, or modification. A third party application manages day-to-day gaming functions and provides game-specific financial data. A review indicated the following security deficiencies that increased the risk of accidental or intentional errors, fraud, or disclosure of confidential and proprietary information:

- The Agency did not periodically review user access.
- The Agency allowed the use of user-ids not attributable to a single individual.
- Password rules were inadequate as defined in State of Arkansas policy 70-002 *Password Management*.
- Vendor access allowed for modification of the application and data without Agency monitoring.
- Agency and vendor users had access to transactions not necessary to complete their job duties.

We recommend the Agency strengthen security controls to ensure user access is commensurate with the individual's job requirements, vendor transactions are adequately monitored, and password rules meet State of Arkansas policy.

Management response: **Bullets 1, 2 and 5:** To monitor user transactions and log-in to BOS, the following actions have been taken: ALC Security will conduct a quarterly review of the "event log application and user role report" to ensure that a person using BOS has been granted proper access for their job duties. Generic passwords will not be granted for test purposes. **Bullet 3:** To ensure compliance with State Policy 70-002 concerning password security, BOS users will be required to change their password at least once every six (6) months and the required password will comply with the requirements of State Policy 70-002. Further, passwords will not be re-used within six (6) password changes. **Bullet 4:** To grant Intralot emergency administrative BOS access privilege, the following actions have been taken: A sealed envelope with a BOS user name/password, granting administrative privileges, will be stored at Intralot's location for emergency use. The envelope will be sealed and signed by the Director of Security. If used, Intralot will notify the ALC Security Department immediately. The Security Department will verify usage/non-usage monthly.

We also noted certain additional matters that we reported to management of the Agency in a separate letter dated October 20, 2011.

The Agency's response to the findings identified in our audit, excluding management letter findings is described above. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, agency management, Arkansas Lottery Commission and other parties as required by Arkansas Code and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



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October 20, 2011