



Arkansas Lottery Commission Audit & Legal Committee

Three-Year Audit Plan Update
September 7, 2012

Requirements under Act 207 of 2011

- Formal, written three-year audit plan be established by July 1, 2011
- Annual review of the audit plan
- Commission or subcommittee approval of amendments to the plan

Background – Three-Year Audit Plan

- Formal, written three-year audit plan was presented to Audit & Legal Committee for approval and was approved on May 4, 2011
- Formal, written three-year audit plan was presented to the Arkansas Lottery Commission for approval and was approved on May 11, 2011
- Plan covered Fiscal Years ending June 30, 2012 through June 30, 2014

Background – Three-Year Audit Plan

- Plan includes eight common periodic reviews for each year of the plan
- Plan includes three special/consulting projects for each year of the plan
- Plan includes six to seven audits on a rotational basis, two or three of which were noted as requiring additional assistance beyond current department resources

Background – Three-Year Audit Plan

- Plan was developed using “risk-based approach”
- Audit universe of 33 processes identified for risk assessment
- Audit universe was developed based on discussions with management and review of other lotteries’ similar assessment
- Risk assessment audit universe did not include any project defined as a special/consulting project or periodic review

Background – Three-Year Audit Plan

- The 10 risk considerations used in developing the plan were:
 - Financial Impact on Lottery Proceeds
 - Previous Audit Issues
 - Executive Management Interest
 - Impact on Reputation
 - External Audit Exposure
 - Lottery Director Level Management Interest
 - Internal Auditor Input
 - Business Changes
 - Complexity
 - Policies and Procedures

Background – Three-Year Audit Plan

Project Type	Frequency	2012	2013	2014
Special/Consulting Projects	Biennially	Fraud Risk Assessment Required by DFA	—	Fraud Risk Assessment Required by DFA
	Biennially	—	Instant Ticket Vendor Security Review	—
	Annually	Gaming System SSAE 16 Review	Gaming System SSAE 16 Review	Gaming System SSAE 16 Review
	Annually	Financial Statements & CAFR Review	Financial Statements & CAFR Review	Financial Statements & CAFR Review

Background – Three-Year Audit Plan

Project Type	Frequency	2012	2013	2014
Periodic Reviews	Annually	Instant Ticket Quality Reports	Instant Ticket Quality Reports	Instant Ticket Quality Reports
	Annually	Revenue/Prize Payments – Instant Ticket Games	Revenue/Prize Payments – Instant Ticket Games	Revenue/Prize Payments – Instant Ticket Games
	Annually	Retailer Sweeps	Retailer Sweeps	Retailer Sweeps
	Annually	Revenue/Prize Payments – Online Games	Revenue/Prize Payments – Online Games	Revenue/Prize Payments – Online Games
	Biannual	High-Tier Prize Payments Documentation	High-Tier Prize Payments Documentation	High-Tier Prize Payments Documentation

Background – Three-Year Audit Plan

Project Type	Frequency	2012	2013	2014
Periodic Reviews (continued)	Monthly	Education Trust Fund Review	Education Trust Fund Review	Education Trust Fund Review
	Monthly ¹	Employee Travel Reimbursements Schedule & Review ¹	Employee Travel Reimbursements Schedule & Review ¹	Employee Travel Reimbursements Schedule & Review ¹
	Monthly ¹	MSR Personal Vehicle Mileage Schedule & Review ¹	MSR Personal Vehicle Mileage Schedule & Review ¹	MSR Personal Vehicle Mileage Schedule & Review ¹

¹On December 7, 2011, the Audit and Legal Committee approved a quarterly review of employee travel reimbursements, limited to travel outside the state only. Further, the Committee approved removal of the monthly MSR Personal Vehicle Mileage Schedule & Review from the Audit Plans.

Background – Three-Year Audit Plan

Project Type	2012	2013	2014
Audits	Licensing – Applications	Unclaimed Prize Fund	Advertising Contract Compliance
	Licensing – Renewals	Points for Prizes	Human Resource Processes
	Prize Validations & Payments	Retailer Accounts Receivable	Retailer Commissions
	Instant Lottery Game Services Contract Compliance	Online Games & Gaming System Contract Compliance	Retailer Credits/ Adjustments
	Back Office System (BOS) Administration ^{2, 3}	Draw Security & Controls ²	IT Gaming Operations ²
	Instant Ticket Game Loads ^{2, 3}	IT General Controls ²	Play It Again ²
		Disaster Recovery ²	

²Approved Three-Year Plan includes limiting condition of this project's inclusion in the plan upon securing qualified part-time contract labor to assist in completing the project.

³On July 30, 2012, the Audit and Legal Committee approved official removal of these projects from the FY2012 Audit Plan and deferral to the FY2013 Audit Plan, with the understanding that the FY2013 audit plan is being reevaluated.

Observations - Risk Assessment Process

- Current Three-Year Plan developed based on a risk assessment process that:
 - Does not consider current management structure
 - Does not consider results of audits and reviews completed since May 2011
- Risk Assessment is a continual process

Development of Updated Three-Year Audit Plan: Steps to Success

Step 1: Update Risk Assessment

- Update Process Universe
- Update Risk Assessment Process
- Perform Risk Assessment
- Compile & Evaluate Results

Step 2: Develop FY2013 – 2015 Audit Plans

- Determine Available Hours for Allocation
- Determine Impact of Risk Assessment
- Determine Audit Strategy & Execution
- Draft Plans & Evaluate

Development of Updated Three-Year Audit Plan: Steps to Success

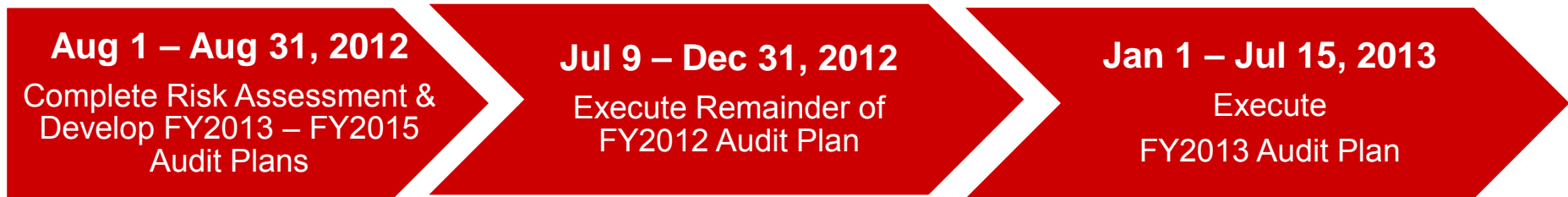
Step 3: Obtain Required Approvals

- Communicate Process to Audit & Legal Committee
- Present Plan to Audit & Legal Committee for Approval
- Communicate Process to Commission
- Present Plan to Commission for Approval
- Evaluate Results & Adjust (as necessary)

Step 4: Execute FY2013 – 2015 Audit Plans & Communicate Results

- Finalize Project Scheduling
- Execute Audits, Reviews, & Consulting Projects
- Communicate Results to Management
- Communicate & Report Results to Audit & Legal Committee and Commission

Timeline



Notes on Timing

- Complete FY2012 Audit Plan by December 31, 2012
- Begin any FY2013 Audit Plan projects prior to December 31, 2012 as time allows, with the understanding that current hour estimates would indicate that no projects will begin before January 1, 2013
- Complete FY2013 Audit Plan no later than June 30, 2013, excluding any projects dependent on June 30 financial information being complete which may occur after year-end
- Audit Plans back in cycle with fiscal year-end thereafter

Updated Risk Assessment – Definition of Considerations

Process Considerations, Weighting, & Explanation

Consideration Number	Consideration Description	Consideration Explanation
Consideration #1	Financial Impact on Lottery Proceeds (5)	<i>The extent to which a process directly impacts lottery proceeds.</i>
Consideration #2	Previous Audit Issues (5)	<i>The seriousness of known previous internal or external audit findings related to the process.</i>
Consideration #3	Director Assessment (5)	<i>A measure of overall interest in or perceived risk for a process as expressed by the Director.</i>
Consideration #4	Functional Management Assessment (4)	<i>A measure of overall risk assessment for a process by the functional management responsible.</i>
Consideration #5	Impact on Reputation (4)	<i>The extent to which control breakdown within a process could result in an issue that has a negative impact on the reputation of the Lottery.</i>

Updated Risk Assessment – Consideration Definition

Process Considerations, Weighting, & Explanation

Consideration Number	Consideration Description	Consideration Explanation
Consideration #6	External Audit Exposure (4)	<i>The extent to which there are known audit procedures performed by the External Auditors that address controls within a process.</i>
Consideration #7	Internal Auditor Assessment (4)	<i>A measure of overall interest in or perceived risk for a process as expressed by the Internal Auditor.</i>
Consideration #8	Complexity, Including Impact of Changes (3)	<i>The overall complexity of a process, including the extent of recent change in the environment, culture, and operating procedures, including management structure and employee turnover.</i>
Consideration #9	Defined Control Environment (3)	<i>The extent to which existing policies and procedures are documented for both manual and automated systems that touch a process.</i>

Notes on Risk Assessment

- Identification of risk in an area does not mean there are not controls in place to mitigate that risk
- Serves as a *tool* in developing Three-Year Plan
- Nature, timing, and extent of audit procedures are always at the discretion of Internal Audit, the Audit & Legal Committee, and the Commission

Updated Risk Assessment – Scoring

Consideration Number	Consideration Description	Min Rating	Max Rating		Weight	Min Score	Max Score
#1	Financial Impact on Lottery Proceeds	1	5	x	5	5	25
#2	Previous Audit Issues	1	5	x	5	5	25
#3	Director Assessment	1	5	x	5	5	25
#4	Functional Management Assessment	1	5	x	4	4	20
#5	Impact on Reputation	1	5	x	4	4	20
#6	External Audit Exposure	1	5	x	4	4	20
#7	Internal Auditor Assessment	1	5	x	4	4	20
#8	Complexity, Including Impact of Changes	1	5	x	3	3	15
#9	Defined Control Environment	1	5	x	3	3	15
Totals		9	45			37	185

Process or Audit Universe as of Today

Processes Previously Included in Risk Assessment Universe*

Online Games & Gaming System Contract Compliance	Prize Validations & Payments ⁸
Instant Ticket Lottery Game Services Contract Compliance	Cash Receipts
Banking Contract Compliance	Fixed Assets
Advertising Contract Compliance	Accounts Payable/Purchasing/Expenditures
Instant & Online Ticket Game Development ¹	Payroll & Leave
Points for Prizes & Play It Again ²	Federal & State Tax Withholding & Reporting
IT Gaming Quality Assurance ³	Unclaimed Prize Fund
IT Gaming Operations ⁴	IT General Controls
Lottery Facilities Security & Controls ⁵	Disaster Recovery/Business Continuity
In-State Draw Security & Controls ⁶	Background Checks
Instant Ticket Warehouse Operations	Human Resource Processes
Licensing & Retailer Compliance ⁷	Back Office System (BOS) Administration
Lottery Vehicles	

**Note: Excludes three retailer-related processes included in the 2011 risk assessment process noted above due to Audit & Legal Committee approval to merge certain Retailer-related processes into one project on February 6, 2012.*

¹Reflects merger of Instant Ticket & Online Ticket processes

²Reflects merger of Points for Prizes and Play It Again processes

³Reflects renaming of Instant Ticket Game Load process to more accurately represent process

⁴Reflects merger of Multi-State Games Draw Controls & Procedures and IT Gaming Operations processes for efficiency

⁵Reflects renaming of Building Security & Controls process to more accurately represent process

⁶Reflects renaming of Draw Security & Controls process to more accurately represent process

⁷Reflects merger of Licensing-Applications, Licensing-Renewals, and Retailer Fidelity Fund processes for efficiency

⁸Reflects inclusion of the High-Tier Prize Documentation (Claims Centers) review for efficiency

Process or Audit Universe as of Today

Additional Processes for Consideration	
Instant Ticket Quality*	Sales Force Reporting
Retailer Sweeps/Commissions/Accts Receivable & Adjustments*	Security Investigations
Revenue/Prize Payments/Reserves – Online Games*	Advertising & Marketing (excl Contract Compliance)
Revenue/Prize Payments – Instant Ticket Games*	Legal Compliance & Monitoring
Education Trust Fund Accounts*	Building & Facility Maintenance
Employee Travel Reimbursements*	IT Help Desk & Desktop Support
Cash Management	Financial Planning/Budgeting
Financial Accounting & Reporting	Public & Legislative Relations
Record Retention	

**Represents Periodic Reviews that have previously been completed, but were not considered in prior risk assessment process. Note that while the Retailer Sweeps process was not included in the 2011 risk assessment process, the Retailer Commissions, Accounts Receivable, and Adjustments processes were, but were merged into the Sweeps process with approval of the Audit & Legal Committee on February 6, 2012.*

Updated Scoring by Process

Process	Brief Description	Score
Financial Accounting & Reporting	Controls and procedures surrounding the accounting and reporting process, including development of the internal and external financial statements, related notes to the statements, and other items/schedules included in the CAFR.	141
Revenue/Prize Payments - Instant Ticket Games	Controls surrounding instant game sales, prize expenses, prizes payable, and unclaimed prizes.	136
Revenue/Prize Payments/Reserves - Online Games	Controls surrounding online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes.	135
Prize Validations & Payments	Controls and procedures surrounding high-tier prize validations and payments, including operations at the claims centers.	134
Accounts Payable/ Purchasing/Expenditures	Controls and procedures surrounding the accounts payable, purchasing, and expense processes, including procurement and payable authorization, compliance with ALC procurement rules/laws, and the small and minority business program.	132

Updated Scoring by Process

Process	Brief Description	Score
Federal & State Tax Withholding & Reporting	Controls and procedures surrounding federal and state tax withholding, reporting to appropriate taxing authorities, and remittance of amounts owed.	127
Back Office System (BOS) Administration	Controls and procedures that ensure the Lottery's BOS system is secure and that access to is controlled.	122
Instant Ticket Lottery Game Services Contract Compliance	Compliance with Contract for Instant Ticket Games (Scientific Games).	121
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.	120
IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.	120
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.	119

Updated Scoring by Process

Process	Brief Description	Score
Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).	118
Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	117
Employee Travel Reimbursements	Controls and procedures surrounding employee travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	117
Retailer Sweeps/Commissions/Accts Receivable & Adjustments	Controls and procedures that ensure the proceeds from online and instant ticket games are collected fully and timely.	117
In-State Draw Security & Controls	Controls and procedures that ALC draws are secure and reliable.	114
Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.	113
Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	113

Updated Scoring by Process

Process	Brief Description	Score
Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	113
IT Gaming Quality Assurance	Controls and procedures surrounding the Instant Game Management System, including access, game loading, testing and processing.	111
Licensing & Retailer Compliance	Controls and procedures surrounding the retailer licensing application and renewal process as well as maintenance of the retailer fidelity fund.	111
Points for Prizes & Play It Again	Controls and procedures surrounding the Points for Prizes and Play It Again programs.	104
Cash Receipts	Controls and procedures surrounding cash receipts.	102
Financial Planning/Budgeting	Controls and procedures surrounding the planning and budgeting process, including management assumptions, budget compilation, and long-range planning.	101
Instant Ticket Quality	Review of independent quality control reports for instant tickets.	100

Updated Scoring by Process

Process	Brief Description	Score
Instant Ticket Warehouse Operations	Controls and procedures the operation of the instant ticket warehouse, including procedures performed by ALC security and SGI personnel.	98
Legal Compliance & Monitoring	Overall monitoring of ALC compliance with applicable laws.	98
Unclaimed Prize Fund	Controls and procedures surrounding the unclaimed prize fund.	98
Human Resource Processes (Hiring, Benefits, Terminations, etc.)	Controls and procedures surrounding hiring and termination of employees, benefits administration, and general human resources functions.	95
Public & Legislative Relations	Controls and procedures surrounding the administration of information provided to the press, members of the Arkansas General Assembly (including the Legislative Oversight Committee), and the Arkansas Lottery Commissioners.	92
Background Checks	Controls and procedures surrounding the background check process.	90
Record Retention	Development of and compliance with Records Retention policy and related laws, including the Arkansas Freedom of Information Act.	89

Updated Scoring by Process

Process	Brief Description	Score
IT Help Desk & Desktop Support	Controls and processes surrounding IT help desk tickets and desktop support including proper issue management, response times, impact to interruption of business operations, and avoidance/response to cyber attacks.	88
Sales Force Reporting	Controls and procedures surrounding sales forces activities and the reporting provided to Management and the Arkansas Lottery Commission relative to sales data.	83
Lottery Facilities Security & Controls	Controls and procedures that ensure ALC buildings and facilities are physically secure.	80
Building & Facility Maintenance	Controls and procedures surrounding building and facility maintenance, including compliance with applicable laws and regulations.	80
Advertising & Marketing (excl Contract Compliance)	Controls and procedures surrounding the administration of the Advertising and Marketing functions, including strategy, spend, procurement/distribution of promotional items, and planning/administration of special events.	78
Lottery Vehicles	Controls and procedures surrounding lottery fleet management and maintenance.	76

Updated Scoring by Process

Process	Brief Description	Score
Banking Contract Compliance	Compliance with Banking Contracts (Bank of the Ozarks).	74
Advertising Contract Compliance	Compliance with Advertising Contracts in place.	73
Cash Management	Controls and procedures surrounding the management of cash, interest, and any investments.	71
Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	65

Updated Three-Year Audit Plan

Project Type	2013	2014	2015
Special / Consulting Projects	—	Fraud Risk Assessment Required by DFA	—
	Instant Ticket Vendor Security Review *	—	Instant Ticket Vendor Security Review *
	Gaming System SSAE 16 Review	Gaming System SSAE 16 Review	Gaming System SSAE 16 Review
	Financial Statements & CAFR Review	Financial Statements & CAFR Review	Financial Statements & CAFR Review

**Note that this review involves traveling out of state to complete coordinated security review with outside consulting firm and other state lotteries. Estimated cost is approximately \$5,000 plus associated travel costs.*

Updated Three-Year Audit Plan

2013 – Audits / Periodic Reviews*

Financial Accounting & Reporting

Accounts Payable/
Purchasing/Expenditures

Back Office System (BOS) Administration

Employee Travel Reimbursements

Education Trust Fund

IT Gaming Quality Assurance

Financial Planning/Budgeting

Instant Ticket Quality

**Note that the total number of scheduled projects for FY2013 is fewer than planned for FY2014 and FY2015 due to the expected timeframe of completion for these projects (January 1 – July 15, 2013).*

Updated Three-Year Audit Plan

2014 – Audits / Periodic Reviews

Prize Validations & Payments	Security Investigations
Federal & State Tax Withholding & Reporting	In-State Draw Security & Controls
Disaster Recovery/ Business Continuity	Instant & Online Ticket Game Development
IT Gaming Operations	Payroll & Leave
IT General Controls	Points for Prizes & Play It Again
Online Games & Gaming System Contract Compliance	

Updated Three-Year Audit Plan

2015 – Audits / Periodic Reviews

Cash Receipts	Record Retention
Instant Ticket Quality	IT Help Desk & Desktop Support
Instant Ticket Warehouse Operations	Sales Force Reporting
Legal Compliance & Monitoring	Lottery Facilities Security & Controls
Unclaimed Prize Fund	Building & Facility Maintenance
Human Resource Processes (Hiring, Benefits, Terminations, etc.)	Advertising & Marketing (excl Contract Compliance)
Public & Legislative Relations	Lottery Vehicles
Background Checks	Banking Contract Compliance
Advertising Contract Compliance	Cash Management
Fixed Assets	

Updated Three-Year Audit Plan - Summary

- Proposed plan retains the three common consulting/special projects in each year of the plan
- One of the three special/consulting projects involves out of state travel to the instant ticket vendor's facilities and collaboration with an outside consulting firm and other state lotteries, consistent with procedures performed by Internal Audit in 2011
- The remaining 42 processes identified in planning are covered at least once in Internal Audit projects in fiscal years 2012 - 2015

Updated Three-Year Audit Plan - Summary

- Proposed Plan provides coverage of the remaining identified “universe” over the three years of the plan
- Risk Assessment process used as a guide, but not the only consideration
- Risk Assessment is a continual process
- Internal Audit must be flexible enough to respond to changes in the organization or concerns raised by management, the Commission, or via observation
- Any proposed plan changes will be presented to the Audit & Legal Committee for approval

Questions?



Arkansas Lottery Commission
Internal Audit

FY2013 – 2015 Audit Plan
Supplemental Information &
Schedules

**Arkansas Lottery Commission
Audit Universe with Score
August 31, 2012**

Process #	Process	Area/Owner	Brief Description	Score
1	Online Games & Gaming System Contract Compliance	Legal - Chief Legal Counsel	Compliance with Contract for Online Games & Gaming System (Intralot).	118
2	Instant Ticket Lottery Game Services Contract Compliance	Legal - Chief Legal Counsel	Compliance with Contract for Instant Ticket Games (Scientific Games).	121
3	Banking Contract Compliance	Legal - Chief Legal Counsel	Compliance with Banking Contracts (Bank of the Ozarks).	74
4	Advertising Contract Compliance	Legal - Chief Legal Counsel	Compliance with Advertising Contracts in place.	73
5	Record Retention*	Legal - Chief Legal Counsel	Development of and compliance with Records Retention policy and related laws, including the Arkansas Freedom of Information Act.	89
6	Legal Compliance & Monitoring*	Legal - Chief Legal Counsel	Overall monitoring of ALC compliance with applicable laws.	98
7	Instant & Online Ticket Game Development	Gaming & Product Development - Smith	Controls and processes surrounding the development of instant and online ticket games.	113
8	Points for Prizes & Play It Again	Gaming & Product Development - Smith	Controls and procedures surrounding the Points for Prizes and Play It Again programs.	104
9	IT Gaming Operations	Gaming & Product Development - Smith	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.	120
10	IT Gaming Quality Assurance	Gaming & Product Development - Smith	Controls and procedures surrounding the Instant Game Management System, including access, game loading, testing and processing.	111
11	Instant Ticket Quality^	Gaming & Product Development - Smith	Review of independent quality control reports for instant tickets.	100
12	Lottery Facilities Security & Controls	Security & Licensing - Huey	Controls and procedures that ensure ALC buildings and facilities are physically secure.	80
13	In-State Draw Security & Controls	Security & Licensing - Huey	Controls and procedures that ALC draws are secure and reliable.	114
14	Back Office System (BOS) Administration	Security & Licensing - Huey	Controls and procedures that ensure the Lottery's BOS system is secure and that access to is controlled.	122
15	Instant Ticket Warehouse Operations	Security & Licensing - Huey	Controls and procedures the operation of the instant ticket warehouse, including procedures performed by ALC security and SGI personnel.	98
16	Licensing & Retailer Compliance	Security & Licensing - Huey	Controls and procedures surrounding the retailer licensing application and renewal process as well as maintenance of the retailer fidelity fund.	111
17	Security Investigations*	Security & Licensing - Huey	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	117
18	Background Checks	Human Resources - Basham	Controls and procedures surrounding the background check process.	90
19	Human Resource Processes (Hiring, Benefits, Terminations, etc.)	Human Resources - Basham	Controls and procedures surrounding hiring and termination of employees, benefits administration, and general human resources functions.	95
20	Public & Legislative Relations*	Commission & Legislative Affairs - Baldridge	Controls and procedures surrounding the administration of information provided to the press, members of the Arkansas General Assembly (including the Legislative Oversight Committee), and the Arkansas Lottery Commissioners.	92
21	Sales Force Reporting*	Sales - Stebbins	Controls and procedures surrounding sales forces activities and the reporting provided to Management and the Arkansas Lottery Commission relative to sales data.	83
22	Advertising & Marketing (excl Contract Compliance)*	Marketing - Bunten	Controls and procedures surrounding the administration of the Advertising and Marketing functions, including strategy, spend, procurement/distribution of promotional items, and planning/administration of special events.	78
23	Prize Validations & Payments	Treasury - Fetzer/Parrish	Controls and procedures surrounding high-tier prize validations and payments.	134
24	Cash Receipts	Treasury - Fetzer/Parrish	Controls and procedures surrounding cash receipts.	102
25	Retailer Sweeps/Commissions/Accts Receivable & Adjustments#	Treasury - Fetzer/Parrish	Controls and procedures that ensure the proceeds from online and instant ticket games are collected fully and timely.	117
26	Cash Management*	Treasury - Fetzer/Parrish	Controls and procedures surrounding the management of cash, interest, and any investments.	71

**Arkansas Lottery Commission
Audit Universe with Score
August 31, 2012**

Process #	Process	Area/Owner	Brief Description	Score
27	Fixed Assets	Financial Control - Fetzer/Williams	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	65
28	Accounts Payable/Purchasing/Expenditures	Financial Control - Fetzer/Williams	Controls and procedures surrounding the accounts payable, purchasing, and expense processes, including procurement and payable authorization, compliance with ALC procurement rules/laws, and the small and minority business program.	132
29	Payroll & Leave	Financial Control - Fetzer/Williams	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	113
30	Federal & State Tax Withholding & Reporting	Financial Control - Fetzer/Williams	Controls and procedures surrounding federal and state tax withholding, reporting to appropriate taxing authorities, and remittance of amounts owed.	127
31	Unclaimed Prize Fund	Financial Control - Fetzer/Williams	Controls and procedures surrounding the unclaimed prize fund.	98
32	Education Trust Fund [^]	Financial Control - Fetzer/Williams	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	113
33	Employee Travel Reimbursements [^]	Financial Control - Fetzer/Williams	Controls and procedures surrounding employee travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	117
34	Revenue/Prize Payments/Reserves - Online Games [^]	Financial Control - Fetzer/Williams	Controls surrounding online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes.	135
35	Revenue/Prize Payments - Instant Ticket Games [^]	Financial Control - Fetzer/Williams	Controls surrounding instant game sales, prize expenses, prizes payable, and unclaimed prizes.	136
36	Financial Accounting & Reporting [*]	Financial Control - Fetzer/Williams	Controls and procedures surrounding the accounting and reporting process, including development of the internal and external financial statements, related notes to the statements, and other items/schedules included in the CAFR.	141
37	Financial Planning/Budgeting [*]	Financial Control - Fetzer/Williams	Controls and procedures surrounding the planning and budgeting process, including management assumptions, budget compilation, and long-range planning.	101
38	IT General Controls	Information Technology - Fetzer/Gilmore/Smith	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.	119
39	Disaster Recovery/Business Continuity	Information Technology - Fetzer/Gilmore/Smith	Controls and processes surrounding management response to any disruption or extended interruption of the Lottery's normal business operations and services.	120
40	IT Help Desk & Desktop Support [*]	Information Technology - Fetzer/Gilmore/Smith	Controls and processes surrounding IT help desk tickets and desktop support including proper issue management, response times, impact to interruption of business operations, and avoidance/response to cyber attacks.	88
41	Lottery Vehicles	Internal Operations - Fetzer/Hudson	Controls and procedures surrounding lottery fleet management and maintenance.	76
42	Building & Facility Maintenance [*]	Internal Operations - Fetzer/Hudson	Controls and procedures surrounding building and facility maintenance, including compliance with applicable laws and regulations.	80

**Represent items included in risk assessment process for the first time*

[^]Represent projects previously included in the audit universe, but not included in the risk assessment process

#Includes the former Retailer Credit Adjustments, Retailer A/R, and Retailer Commissions audits that were merged into the Retailer Sweeps project per Audit and Legal Committee approval on February 6, 2012. Retailer Sweeps were not included in the previous risk assessment process.

**Arkansas Lottery Commission
Audit Universe Arranged by Score
August 31, 2012**

Process #	Process	Area/Owner	Brief Description	Score
36	Financial Accounting & Reporting*	Financial Control - Fetzer/Williams	Controls and procedures surrounding the accounting and reporting process, including development of the internal and external financial statements, related notes to the statements, and other items/schedules included in the CAFR.	141
35	Revenue/Prize Payments - Instant Ticket Games^	Financial Control - Fetzer/Williams	Controls surrounding instant game sales, prize expenses, prizes payable, and unclaimed prizes.	136
34	Revenue/Prize Payments/Reserves - Online Games^	Financial Control - Fetzer/Williams	Controls surrounding online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes.	135
23	Prize Validations & Payments	Treasury - Fetzer/Parrish	Controls and procedures surrounding high-tier prize validations and payments.	134
28	Accounts Payable/Purchasing/Expenditures	Financial Control - Fetzer/Williams	Controls and procedures surrounding the accounts payable, purchasing, and expense processes, including procurement and payable authorization, compliance with ALC procurement rules/laws, and the small and minority business program.	132
30	Federal & State Tax Withholding & Reporting	Financial Control - Fetzer/Williams	Controls and procedures surrounding federal and state tax withholding, reporting to appropriate taxing authorities, and remittance of amounts owed.	127
14	Back Office System (BOS) Administration	Security & Licensing - Huey	Controls and procedures that ensure the Lottery's BOS system is secure and that access to it is controlled.	122
2	Instant Ticket Lottery Game Services Contract Compliance	Legal - Chief Legal Counsel	Compliance with Contract for Instant Ticket Games (Scientific Games).	121
39	Disaster Recovery/Business Continuity	Information Technology - Fetzer/Gilmore/Smith	Controls and processes surrounding management response to any disruption or extended interruption of the Lottery's normal business operations and services.	120
9	IT Gaming Operations	Gaming & Product Development - Smith	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.	120
38	IT General Controls	Information Technology - Fetzer/Gilmore/Smith	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.	119
1	Online Games & Gaming System Contract Compliance	Legal - Chief Legal Counsel	Compliance with Contract for Online Games & Gaming System (Intralot).	118
17	Security Investigations*	Security & Licensing - Huey	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	117
33	Employee Travel Reimbursements^	Financial Control - Fetzer/Williams	Controls and procedures surrounding employee travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	117
25	Retailer Sweeps/Commissions/Accts Receivable & Adjustments#	Treasury - Fetzer/Parrish	Controls and procedures that ensure the proceeds from online and instant ticket games are collected fully and timely.	117
13	In-State Draw Security & Controls	Security & Licensing - Huey	Controls and procedures that ALC draws are secure and reliable.	114
7	Instant & Online Ticket Game Development	Gaming & Product Development - Smith	Controls and processes surrounding the development of instant and online ticket games.	113
29	Payroll & Leave	Financial Control - Fetzer/Williams	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	113
32	Education Trust Fund^	Financial Control - Fetzer/Williams	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	113
10	IT Gaming Quality Assurance	Gaming & Product Development - Smith	Controls and procedures surrounding the Instant Game Management System, including access, game loading, testing and processing.	111
16	Licensing & Retailer Compliance	Security & Licensing - Huey	Controls and procedures surrounding the retailer licensing application and renewal process as well as maintenance of the retailer fidelity fund.	111
8	Points for Prizes & Play It Again	Gaming & Product Development - Smith	Controls and procedures surrounding the Points for Prizes and Play It Again programs.	104
24	Cash Receipts	Treasury - Fetzer/Parrish	Controls and procedures surrounding cash receipts.	102

**Arkansas Lottery Commission
Audit Universe Arranged by Score
August 31, 2012**

Process #	Process	Area/Owner	Brief Description	Score
37	Financial Planning/Budgeting*	Financial Control - Fetzer/Williams	Controls and procedures surrounding the planning and budgeting process, including management assumptions, budget compilation, and long-range planning.	101
11	Instant Ticket Quality^	Gaming & Product Development - Smith	Review of independent quality control reports for instant tickets.	100
15	Instant Ticket Warehouse Operations	Security & Licensing - Huey	Controls and procedures the operation of the instant ticket warehouse, including procedures performed by ALC security and SGI personnel.	98
6	Legal Compliance & Monitoring*	Legal - Chief Legal Counsel	Overall monitoring of ALC compliance with applicable laws.	98
31	Unclaimed Prize Fund	Financial Control - Fetzer/Williams	Controls and procedures surrounding the unclaimed prize fund.	98
19	Human Resource Processes (Hiring, Benefits, Terminations, etc.)	Human Resources - Basham	Controls and procedures surrounding hiring and termination of employees, benefits administration, and general human resources functions.	95
20	Public & Legislative Relations*	Commission & Legislative Affairs - Baldrige	Controls and procedures surrounding the administration of information provided to the press, members of the Arkansas General Assembly (including the Legislative Oversight Committee), and the Arkansas Lottery Commissioners.	92
18	Background Checks	Human Resources - Basham	Controls and procedures surrounding the background check process.	90
5	Record Retention*	Legal - Chief Legal Counsel	Development of and compliance with Records Retention policy and related laws, including the Arkansas Freedom of Information Act.	89
40	IT Help Desk & Desktop Support*	Information Technology - Fetzer/Gilmore/Smith	Controls and processes surrounding IT help desk tickets and desktop support including proper issue management, response times, impact to interruption of business operations, and avoidance/response to cyber attacks.	88
21	Sales Force Reporting*	Sales - Stebbins	Controls and procedures surrounding sales forces activities and the reporting provided to Management and the Arkansas Lottery Commission relative to sales data.	83
12	Lottery Facilities Security & Controls	Security & Licensing - Huey	Controls and procedures that ensure ALC buildings and facilities are physically secure.	80
42	Building & Facility Maintenance*	Internal Operations - Fetzer/Hudson	Controls and procedures surrounding building and facility maintenance, including compliance with applicable laws and regulations.	80
22	Advertising & Marketing (excl Contract Compliance)*	Marketing - Bunten	Controls and procedures surrounding the administration of the Advertising and Marketing functions, including strategy, spend, procurement/distribution of promotional items, and planning/administration of special events.	78
41	Lottery Vehicles	Internal Operations - Fetzer/Hudson	Controls and procedures surrounding lottery fleet management and maintenance.	76
3	Banking Contract Compliance	Legal - Chief Legal Counsel	Compliance with Banking Contracts (Bank of the Ozarks).	74
4	Advertising Contract Compliance	Legal - Chief Legal Counsel	Compliance with Advertising Contracts in place.	73
26	Cash Management*	Treasury - Fetzer/Parrish	Controls and procedures surrounding the management of cash, interest, and any investments.	71
27	Fixed Assets	Financial Control - Fetzer/Williams	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	65

*Represent items included in risk assessment process for the first time

^Represent projects previously included in the audit universe, but not included in the risk assessment process

#Includes the former Retailer Credit Adjustments, Retailer A/R, and Retailer Commissions audits that were merged into the Retailer Sweeps project per Audit and Legal Committee approval on February 6, 2012. Retailer Sweeps were not included in the previous risk assessment process.

**Arkansas Lottery Commission
Internal Audit
Audit Universe for FY2013 - FY2015 Audit Plan**

<u>Legal - Chief Legal Counsel</u>	<u>Treasury - Fetzer/Parrish</u>
1 Online Games & Gaming System Contract Compliance	23 Prize Validations & Payments
2 Instant Ticket Lottery Game Services Contract Compliance	24 Cash Receipts
3 Banking Contract Compliance	25 <i>Retailer Sweeps/Commissions/Accts Receivable & Adjustments#</i>
4 Advertising Contract Compliance	26 <i>Cash Management*</i>
5 <i>Record Retention*</i>	
6 <i>Legal Compliance & Monitoring*</i>	
	<u>Financial Control - Fetzer/Williams</u>
<u>Gaming & Product Development - Smith</u>	27 Fixed Assets
7 Instant & Online Ticket Game Development	28 Accounts Payable/Purchasing/Expenditures
8 Points for Prizes & Play It Again	29 Payroll & Leave
9 IT Gaming Operations	30 Federal & State Tax Withholding & Reporting
10 IT Gaming Quality Assurance	31 Unclaimed Prize Fund
11 <i>Instant Ticket Quality^</i>	32 <i>Education Trust Fund^</i>
	33 <i>Employee Travel Reimbursements^</i>
<u>Security & Licensing - Huey</u>	34 <i>Revenue/Prize Payments/Reserves - Online Games^</i>
12 Lottery Facilities Security & Controls	35 <i>Revenue/Prize Payments - Instant Ticket Games^</i>
13 In-State Draw Security & Controls	36 <i>Financial Accounting & Reporting*</i>
14 Back Office System (BOS) Administration	37 <i>Financial Planning/Budgeting*</i>
15 Instant Ticket Warehouse Operations	
16 Licensing & Retailer Compliance	<u>Information Technology - Fetzer/Gilmore/Smith</u>
17 <i>Security Investigations*</i>	38 IT General Controls
	39 Disaster Recovery/Business Continuity
<u>Human Resources - Basham</u>	40 <i>IT Help Desk & Desktop Support*</i>
18 Background Checks	
19 Human Resource Processes (Hiring, Benefits, Terminations, etc.)	<u>Internal Operations - Fetzer/Hudson</u>
	41 Lottery Vehicles
<u>Commission & Legislative Affairs - Baldrige</u>	42 <i>Building & Facility Maintenance*</i>
20 <i>Public & Legislative Relations*</i>	
<u>Sales - Stebbins</u>	
21 <i>Sales Force Reporting*</i>	
<u>Marketing - Buntin</u>	
22 <i>Advertising & Marketing (excl Contract Compliance)*</i>	

Projects Not Included in Risk Assessment
Facilitation/Review of Risk Assessment required by DFA (Biennially)
Gaming System SSAE 16 SOC1 Review (Annually)
Financial Statements & CAFR Review (Annually)
Instant Ticket Vendor Security Review (Biennially)
<i>These items are excluded from the risk assessment process due to their consultative nature; no official report will be issued for these projects, but the Audit & Legal Committee and the Arkansas Lottery Commission will be updated on project progress and completion.</i>

*Represent items included in risk assessment process for the first time

^Represent projects previously included in the audit universe, but not included in the risk assessment process

#Includes the former Retailer Credit Adjustments, Retailer A/R, and Retailer Commissions audits that were merged into the Retailer Sweeps project per Audit and Legal Committee approval on February 6, 2012. Retailer Sweeps were not included in the previous risk assessment process.

Arkansas Lottery Commission
Audit & Legal Committee
Additional Information – Instant Ticket Vendor Security Review
September 7, 2012

- Review is coordinated by Delehanty Consulting LLC (www.delehantyconsulting.com)
- The Arkansas Scholarship Lottery, along with lotteries from the states of North Carolina, Florida, Kentucky, Washington, and Illinois participated in the 2011 review
- The ALC Internal Auditor was part of the group of internal auditors among the states listed above that participated as part of the review team, alongside auditors from Delehanty Consulting in 2011
- Per the final report issued for the 2011 review, the overall objective is to “perform an assessment of the security established by management to ensure security, integrity, honesty, and fairness of the instant ticket/scratch-off games produced by SGI at its Alpharetta facility.”
- In addition to the overall objectives relating to review of security, there are also lottery-specific review procedures that may be performed, including review of the incident management process, ticket reconstruction process, method of delivery of game files, and audit of a specific instant ticket game
- Review is expected to take place sometime during the months of January – March 2013
- Estimated cost is \$5,000 plus travel costs (travel cost is for ALC Internal Audit participation)