Audit Report Finding 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.

Recommendation for Finding 2011-1:

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

Status:

- The Lottery is procuring projects from JM Associates, Inc. through its advertising, marketing, and media services vendor.
- Internal Audit did not note any payments to JM Associates, Inc. during September 2011, October 2011, or November 2011.

Audit Report Finding 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.

Recommendation for Finding 2011-2:

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.

Status:

- The Lottery's new Chief Fiscal Officer (CFO) began work on November 29, 2011. The CFO is in the process of reviewing and revising current travel policies and procedures that will enhance internal controls.

Audit Report Finding 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.

Recommendation for Finding 2011-3:

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.

Status:

- The Lottery's Security, via email, requests a monthly list of employees from Intralot, Scientific Games, and Legislative Audit that will require access to Lottery facilities.

- Lottery Security will update access to Lottery facilities based on the responses received. Internal Audit noted that the lists were obtained and reviewed by Lottery Security personnel for the months of November 2011 and December 2011.

- Internal Audit confirmed that key door card access records have been retained in accordance with Lottery's Records Retention Policy since September 2011.

Audit Report Finding 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.

Recommendation for Finding 2011-4:

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.

User Access

- Internal Audit noted that the Security Department completed a review in September 2011 and updated user security role assignments.
- Lottery Security has assigned an employee to conduct quarterly reviews of the event log application and the user role report to ensure employees and vendors have access to BOS functions based on their job duties.

Vendor Transactions

- The generic user-ids are no longer utilized within BOS by the Lottery. The only exception is a user-id with administrative rights that is stored in a sealed envelope at the vendor's location for emergency use only.

- Lottery Security has established controls to monitor the usage/non-usage of the emergency user-id. A review of a BOS user role report did not reveal any other vendor users with administrative privileges.

Password Configuration

- Lottery Security has made the following changes to the BOS password configuration to ensure compliance with the State Policy concerning password security:

    1. The BOS users must change their password at least once every 90 days.
    2. The minimum length of the password must be 8 characters.
    3. A password may not be re-used within 6 password changes.

Arkansas Lottery Commission
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Project	Description	Status	Comments
Special Projects			
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	CFO and Internal Auditor plan to work together in preparing risk assessment starting in January 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.

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Project	Description	Status	Comments
Periodic Reviews			
Instant Ticket Quality Reports	Annual review of independent quality control reports of Arkansas Scholarship Lottery instant tickets.	Complete	No findings or recommendations.
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.	Near Completion	Five reports will be issued for this project. **Cash 3** (Complete - No findings or recommendations), **Cash 4** (Complete - No findings or recommendations), **Powerball** (Complete - No findings or recommendations), **Mega Millions** (Complete - No findings or recommendations), **Decades of Dollars** (Fieldwork in progress). Reports will be issued in near future. Finalizing schedules with supplemental financial information.

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Project	Description	Status	Comments
Periodic Reviews continued			
High-Tier Prize Payments Documentation	Biannual review of the processing and supporting documentation of high-tier prize payouts.	Near Completion	Fieldwork has been completed at all claims centers. Awaiting review process.
Education Trust & Shortfall Reserve Funds	Review transactions, confirm balances, and ensure sufficient collateralization. Provide Arkansas Lottery Commission with a schedule of Educational Trust Account transactions.	Monthly	Reviews have been completed for June 2011, July 2011, August 2011, September 2011 and October 2011. No Exceptions Noted.
Employee Travel Reimbursement	Review employee travel reimbursements. Ensure sufficient documentation is obtained and confirm reimbursement amounts. Provide Arkansas Lottery Commission with a schedule of employee travel.	Monthly	Reviews have been completed for July 2011, August 2011 and September 2011. See Request for changes in Audit Plan.
MSR Personal Vehicle Mileage Reimbursement	Review MSR personal vehicle mileage reimbursements. Ensure sufficient documentation is obtained and confirm reimbursement amounts. Provide Arkansas Lottery Commission with a schedule of MSR personal vehicle mileage.	Monthly	See Request for changes in Audit Plan.

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Project	Description	Status	Comments
Audits:			
Licensing - Applications	Review the internal controls surrounding the retailer licensing process (applications).	Planned	Some fieldwork has been completed. Security is revising processes and reorganizing files. Audit will be conducted in Spring 2012.
Licensing - Renewals	Review the internal controls surrounding the retailer licensing process (renewals).	Planned	Some fieldwork has been completed. Security is revising processes and reorganizing files. Audit will be conducted in Spring 2012.
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 loading, 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.

Arkansas Lottery Commission – Internal Audit
Proposed Changes to the Fiscal Year 2012 Audit Plan
Status Report – December 7, 2011

Employee Travel Reimbursement

The Internal Audit Plan includes a monthly review of employee travel reimbursements to ensure sufficient documentation exists and the reimbursement amount is correct. In addition, a monthly schedule of all employee travel is to be prepared for the Arkansas Lottery Commission.

Proposed Change

Internal Audit will continue to review all employee travel reimbursements. However, Internal Audit request that the travel reports prepared for the Arkansas Lottery Commission be prepared quarterly and include out-of-state travel expenditures only.

Marketing Service Reimbursement (MSR) Personal Vehicle Mileage Reimbursement

The Internal Audit Plan includes a monthly review of MSR Personal Vehicle Mileage reimbursements to ensure sufficient documentation exists and the reimbursement amount is correct. In addition, a monthly schedule of all MSR Personal Vehicle Mileage reimbursements is to be prepared for the Arkansas Lottery Commission.

Proposed Change

Internal Audit request that this project is removed from the FY 2012 Audit Plan.

- Review processes have been established by Sales and Marketing and the Finance Department.
- The Fiscal Year 2011 Legislative Audit Report did not include any findings or recommendations in this area.
- MSR Personal Vehicle Mileage reimbursements will be included in the audit universe for future audit consideration based on internal audit's risk assessment.