

Audit and Legal Committee
Arkansas Lottery Commission
FINAL DRAFT RECORD
12.07.2011

Commissioner Ben Pickard, Chair, called the meeting to order. Commissioners Bruce Engstrom and Raymond Frazier were present. Commissioners Steve Faris and Mike Malone were present via teleconference. ALC staff members present were Interim Director Julie Baldrige, Internal Auditor Michael Hyde, Bishop Woosley, Whitnie Hall, and Patti Vick.

Commissioner Pickard began the meeting by stating that the Consideration of Outside Legal Counsel would be moved to the first item on the agenda, explaining that an ASL staff accountant could be tallying votes while the committee was going through other items on the agenda.

Commissioner Pickard recognized Bishop Woosley to discuss the Outside Legal Counsel RFQ evaluation process. Mr. Woosley said that there were four (4) responses, which were all received by 4:00 p.m., on December 2, 2011, the submission opening date and time: Mitchell Williams Selig Gates & Woodyard; Quattlebaum, Grooms, Tull & Burrow; Rose Law Firm; and Williams and Anderson. He added that Audit and Legal Committee members had been provided with copies of those responses, along with scoring sheets. He asked that the evaluators list their ratings or scores. Pickard said that he appreciated the four firms that submitted responses, and that they were all excellent firms.

Commissioner Engstrom stated for the record that one of the firms is a client of his and as such he would not participate in scoring, discussion, or vote.

Bishop Woosley gave his scores, accompanied by a brief rationale. He explained that the total amount of points a response could earn was 100. He found two firms with credentials that slightly outweighed the others, and scored according. He ranked Mitchell Williams the highest, with a total score of 98. He cited the following reasons: (1) the experience of Derrick Smith, whose service as a former Lottery Commissioner would benefit the ALC because he is already familiar with Lottery rules and statutes; (2) Mitchell Williams was the only firm which made any provision regarding Minority and Female-Owned business participation; (3) Mitchell Williams has contracted with a minority firm with specialization in immigration law; and (4) Mitchell Williams has an Information Technology practice, which would assist ALC with Internal and Legislative audits regarding data security.

Mr. Woosley ranked Williams & Anderson second, with a total score of 86, adding that there were no points earned for minority and female-owned business participation. He noted that Williams & Anderson had helped write the Lottery Act. He gave the Quattlebaum firm a score of 84, and the Rose Law Firm a score of 83.

Commissioner Malone gave his highest score to Mitchell Williams, assigning them a score of 96. He stated that his reasons were much the same as Mr. Woosley's, i.e., the firm was familiar with the Lottery and that it was the only one of the four firms which worked to address female and minority-owned business participation. He gave Williams & Anderson a score of 86, followed by the Rose Law Firm with a score of 81. He gave Quattlebaum a score of 80.

Commissioner Faris stated that each of the firms was great, each having a strong Arkansas presence. He said that his rankings were very similar to both Mr. Woosley's and Commissioner Malone's. He felt the Mitchell Williams firm displayed expertise in Lottery business, showed a strong minority presence, and had experience with technology issues. He ranked Williams Anderson second because of their expertise in the Lottery. He then ranked the Rose Law Firm third, followed by Quattlebaum.

Commissioner Pickard gave the firm of Mitchell Williams a score of 94. He gave a score of 91 to Williams & Anderson, and added that the lower score was due specifically to the firm's lack of minority participation. He gave the score of 82 to both Rose Law Firm and to the Quattlebaum firm.

Mr. Woosley said that he would forward the scoring sheets to Terry Williams, an accountant for the Arkansas Lottery Commission. Mr. Woosley added that he would be visiting with Mr. Smith of Mitchell Williams to negotiate the best deal for the lottery and present that at the next full Commission meeting.

The next order of business was Internal Audit's Follow-Up on FY 2011 Legislative Audit Report Findings. Michael Hyde, ALC Internal Auditor began by recognizing the attendance of Jon Moore, Deputy Legislative Auditor, and Kurt Cover and Cliff Murchison, Legislative Auditors. He stated that there were a few findings, but that the audit was far better than the previous year. He said that, other than some isolated issues regarding travel, (ALC) didn't have any repeat findings so it was able to get previous audit issues resolved and that (ALC) would do so with the findings this year, as well.

Commissioner Engstrom stated that he had discussed with Mr. Hyde the possibility that employee travel taken between the period of June 30, 2011, and October 3, 2011, could possibly be an issue for next year's Legislative Audit. Interim Director Baldrige said that Jerry Fetzer, ALC's new Chief Financial Officer, had been appointed Travel Administrator. She added that Mr. Hyde has been double- and triple-checking the travel that has already been done and that she feels confident that the new Administrator and the staff have "a handle on it."

Mr. Hyde gave his report of the 2011 Audit Findings (record attached). Audit Report Finding 2011-1 was resolved in August 2011. At that time, ALC began ensuring that projects procured through JM Associates went through its advertising, marketing and

media services vendor. Internal Audit has continued to monitor and did not note any payments to JM Associates during September, October and November, 2011.

Audit Finding 2011-2 concerned travel issues of employees who were no longer employed by the lottery. Mr. Hyde said that Mr. Fetzer, as Travel Administrator, is in the process of reviewing and revising travel policy. Mr. Hyde called upon Mr. Fetzer, who stated that ALC's new travel policy would be submitted for review next week and that the new travel policy would basically conform to the new DFA guidelines which were published in November 2011. He added that in some cases the ALC may be more stringent. He explained that State policy allows agencies to have more restrictive but not less restrictive policies, and that ALC may require more documentation when submitting travel claims.

Finding 2011-3 has been resolved. Procedures have been changed regarding physical access and security controls have been strengthened.

Regarding Finding 2011-4, Security Controls, Lottery security has taken steps to strengthen security controls and that vendor transactions are adequately monitored. Security is now conducting 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.

Commissioner Pickard stated that he would like to thank the Legislative Audit team for their help through the process (of the most recent audit).

The next item on the agenda was discussion of the FY 2012 Gaming System SSAE 16 (SOC 1) Report. Commissioner Pickard recognized Robert Hildebrand, of Intralot, who explained that Steve Beck, also of Intralot, would be arriving in Little Rock to meet (with ALC personnel) and try to get everything finalized for the SSAE Audit. Mr. Hyde stated that Legislative Audit is comfortable with the audit being done the same way it was done previously, that is, allowing Intralot to select an independent auditor to perform that work.

Mr. Hyde presented a status report in the 2011-2012 Internal Audit Report, which is attached to record. Interim Director Baldrige called to the Committee's attention one item on the report, the auditing of the licensing department. She advised that the Licensing Department had recently been reorganized and now falls under Security. She added that the Security and Licensing team is going through every single retailer file folder to ensure the files are in order and Internal Audit will conduct a review in the spring of 2012.

The next agenda item was Internal Audit Plan Revisions, record attached. The proposed changes included continuing to review employee travel reimbursements monthly, but to prepare travel reports quarterly. The travel reports would include out-of-state travel expenditures only. The other proposed change to the audit plan was the

removal of the Market Sales Representative (MSR) Personal Vehicle Mileage Reimbursements from the FY 2012 Audit Plan. Commissioner Engstrom moved to accept both proposed changes, the motion was seconded by Commissioner Malone, and the motion carried.

Under the last item on the agenda, "Other Business," Commissioner Pickard asked the committee to review the draft record of the Committee's last meeting on October 7, 2011. Commissioner Engstrom moved to accept the record as written and this was seconded by Commissioner Malone. The motion passed without dissent.

Interim Director Baldrige gave a brief report to the Committee regarding general Lottery business. She told the Committee that she would forward to the Commissioners a copy of the Excel spreadsheet that had been distributed to the ALC Legislative Oversight Committee On December 6, 2011. She said that ALC would be sending holiday cards to universities and colleges throughout the state, accompanied by ALC's first CAFR. She added that she would request that the CAFR be placed in college libraries or archives.

Lastly, she stated that there was a routine matter of restructuring the chain of command in the Finance department to include 19 additional employees.

The overall department would be called Finance and Shared Services. Treasury and the three claim centers would fall under the department. The Internal IT employees are now also under Shared Services and report to CFO Fetzer, as does Internal Operations. She added that the department has grown from 4 to 23 people and the structure is much more coherent. The structure of Internal Operations and Treasury did not change, other than their heads reporting to the CFO.

Commissioner Engstrom addressed the committee regarding questionable travel-related reimbursements and called upon Mr. Woosley to explain to the Committee what ALC is preparing to do to address the reimbursements.

Mr. Woosley stated that ALC had looked at vendor-related trips that Ernie Passailaigue and David Barden had taken over the course of 2011. It appeared that based on information provided to (ALC) by Legislative Audit, Passailaigue and Barden did not take the backend leg of those flights, but instead, flew home to South Carolina. Although they didn't take the second leg of the flight, however, they claimed it in on their travel reimbursement forms. ALC feels that the reimbursement is not supported or documented, and therefore, it would be considered income that needs to be accounted for, either on a W-2 form or otherwise. Mr. Woosley stated that ALC is currently withholding annual leave for these individuals. The total for the backend legs of the flights that they did not take amounts to \$608.10 each. Mr. Woosley stated that ALC plans to send letters to Passailaigue and Barden, advising them that ALC is withholding \$608.10 from the annual leave money due to them, in light of the fact that it's an undocumented or unsupported payment. Therefore, we would not have to issue additional W-2s for 2011. Mr. Woosley added that Mr. Hyde is looking into similar

circumstances for 2010 and if anything similar is found, Mr. Fetzner is prepared to issue amended W-2s for those individuals. Further, Mr. Woosley, advised, the withholding of \$608.10 from each employee's annual leave is for the vendor trips only, and does not account for leave and other items related to the last audit report, which is still being reviewed by the County prosecutor.

Commissioner Frazier asked if an appeal had been filed in the Bridgette Frazier vs. ALC et al. case. Mr. Woosley responded that no appeal has been filed to date.

There being no further business, the meeting was adjourned.