Audit and Legal Committee
Arkansas Lottery Commission
FINAL DRAFT RECORD
10.07.2011

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

Commissioner Pickard called on Internal Auditor Hyde to report the status of ALC's 2012-2012 Audit Plan (included in file). Mr. Hyde said the ALC had received a biannual letter from DFA dated October 3, 2011, for risk assessment to identify risk factors and to describe what controls ALC has in place. All levels of management are to be involved and a certification letter must be signed off by management. The Internal Audit will work with management to ensure the risk assessment is completed by March 30, 2012, which is the date the certification letter is due. He stated that he was gathering information from other agencies to utilize during the assessment, and that he would be providing a PowerPoint presentation to help explain the process. He added that DFA offers classes that ALC management can attend.

He reported that the Gaming System SSAE16 Report, performed by McGladrey & Pullen, LLP, was complete, and there were no issues in that report. Commissioner Engstrom asked Mr. Hyde to provide him a copy of that report.

Mr. Hyde said that Controller Terry Williams was working very hard on the 2011 Financial Statements, as well as the CAFR [Comprehensive Annual Financial Report], and that the Internal Audit department was working with ALC Finance department, Crowe Horwath, and Legislative Audit regularly concerning the 2011 Financial Statements as well as the audit. He said that ALC is on schedule to meet the deadlines of the CAFR and 2011 Financial Statements.

Commissioner Engstrom stated that prior to Director Passailaigue's resignation, he, Chairman Lamberth, and the Director were working to find a replacement for the Chief Financial Officer, but that had been put on the back burner during the transition. He requested that he, Interim Director Baldridge and Chairman Lamberth reestablish contact and get the process moving again. Interim Director Baldridge thanked Commissioner Engstrom and said that the search for a new CFO was urgent, so she was very glad to hear of his concern.

Interim Director Baldridge asked if there would be any time to address the design of the CAFR, adding that after reviewing the draft copy, she and some of the ALC Directors were concerned about its appearance, adding that the Legislature would be disappointed if the Report did not have the appropriate "bells and whistles." Commissioner Engstrom concurred, stating that higher costs might be unavoidable, but

that it would be a good idea to use in-house staff for the design of the report. Interim Director Baldridge said that ALC has a very talented staff, and that it would most probably not cost any more money to make the CAFR "look smart as well as read smart." Chairman Pickard thanked Interim Director Baldridge for her suggestion and added that Mr. Hyde would be glad to offer that assistance, also. Mr. Hyde said that he would certainly be glad to help. Interim Director Baldridge then requested permission to send the draft CAFR to the ALC design department to begin working on a new design for the report. Chairman Pickard and Commissioner Engstrom concurred.

Mr. Hyde reported that the annual Instant Ticket Quality Reports which are performed by an independent entity selected by the vendor have been received, but that he has not had time to review them.

Fieldwork was currently in progress for the annual sweeps review, the annual review of online games revenue, prize payments and reserves, and for the biannual high-tier prize payments documentation review.

The monthly review of the Education Trust Accounts for July and August 2011 are near completion, with no exceptions noted. Ms. Hall has completed the reviews of employee travel, with nothing to report. She has also finished her review of MSR travel for July 2011, and this is ready for his review; currently there are no exceptions noted. Mr. Hyde is working with legislative audit in the review of ALC licensing. ALC Internal Audit and Legislative Audit are doing separate reports; however, they are working together to ensure there is no duplication of effort.

ALC Internal Audit is currently reviewing the instant ticket games contract; field work is in progress.

Mr. Hyde stated that in response to the income tax matters, Ms. Hall had reviewed 100% of the banking transactions for July, August and September of 2011 and there were no exceptions on ALC. However, there was one exception which was a banking error, which caused one payment to the IRS to be 4 days late. The bank reported that an ACH was inadvertently returned to the bank and the bank took responsibility for the late payment. The bank assured ALC that if there were any penalties related to that late payment, they would cover them. Mr. Hyde outlined the new procedures ALC staff had put in place to ensure that there were no late payments. Each day, after the closing of the transactions for prizes paid out, a report is run off the gaming system, all taxes that are due are identified, and payment is made that day through the IRS system. The following day, another ALC employee verifies that the deposits have been made. If by chance there is an error, ALC can then do a wire transfer for payment. Internal Audit will continue to follow up to ensure procedures remain in place.

Commissioner Engstrom asked if the ALC was being proactive regarding the mistake the bank had made in the 4-day late payment and asked whether or not ALC should approach the IRS about the issue. Mr. Hyde replied that the issue had been brought to the attention of the [tax] attorney and that the bank had provided us with a letter.

Mr. Hyde's final item concerned the Legislative Audit report follow-up which ALC presents to the Legislative Oversight Committee every month. There was one finding remaining, but he felt confident that with the involvement of Crowe Horwath and the help of the legislative audit, the finding would be cleared.

Chairman Pickard asked Mr. Hyde to remind the committee members of the process of the end-of-year audit. Mr. Hyde replied that legislative auditors were close to finishing their field work. Upon completion, legislative audit will have an exit conference with ALC management to discuss the report. The final report will be presented during the November Joint Legislative Audit Committee; consequently, he projected a date of approximately October 20-21 for the ALC exit conference. He added that the report would not be final until it had gone through the Joint Legislative Audit Committee.

Commissioner Malone asked Mr. Hyde to remind the committee of what processes are in place to prevent duplication of effort between legislative audit and internal audit. Hyde responded that he reviews the audit plan and risk factors, and that one of the factors he builds into the plan is the percentage of time/coverage that legislative audit spends on each area.

Chairman Pickard brought up the next item on the agenda, which was the discussion of the Outside Legal Counsel RFQ. He stated that the RFQ had been brought up two committee meetings previous, but that he wanted to revisit it to avoid confusion. Commissioner Engstrom said that the committee had previously agreed to recommend to the full commission the exploration of contracting with an outside legal source, but that in order the 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.

There being no further business, the meeting was adjourned.