Audit & Legal Committee
Three-Year Audit Plan Update
July 12, 2013

A.C.A. § 23-115-206 Requirements

- Formal, written three-year audit plan be established by July 1, 2011

- <u>Annual review</u> of the audit plan

- Commission or subcommittee approval of amendments to the plan

Background - Three-Year Audit Plan

- Current Plan covers FY 2013 – 2015
- Current Plan approved by Audit & Legal Committee on September 7, 2012
- Current Plan approved by full Commission on September 17, 2012
- Need: FY 2016 Plan in order to continue to maintain Three-Year Audit Plan

Risk Assessment Foundation

- Current Plan for FY 2013 – 2015 developed using risk assessment as foundation

- Division Director, CFO, ALC Director (collectively, "Management") inputs in addition to Internal Audit judgment

- Risk Assessment scores used as starting point for each year's plan

Risk Assessment Approach for 2013

- IIA Standards require annual risk assessment

- Management involvement: "update approach"

- Management asked to evaluate any known changes to individual processes, and provide such feedback to Internal Audit (more details to come)

Benefits of Update Approach

- Allows for stability in Three-Year Plan to ensure more complete coverage

- Allows for significant information sharing with efficiency

- Still allows for flexibility to be built into the Plan, while fulfilling annual risk assessment requirements

Update Procedure

- Circulate process-level information to process owners or Management
- Information included:
  - Process Number / Name / Owner
  - Description of Process
  - Final Risk Score from Prior Assessment (2012)
  - Last fiscal year audit was performed or next year to be performed as part of current plan

Update Procedure (continued)

- Process owners / stakeholders provided comments at process-level regarding changes, impact of changes to perceived process risk, need for updated process descriptions, overall thoughts on process that might be helpful

- Impact of process owner feedback taken into account in developing FY 2016 Plan and in determining if any impacts should be reflected in FY 2014 or FY 2015 Plans

Updated Plan Development

- Overall intent is to perform existing FY 2014 and 2015 audit plan, with additions to each year's plan, based on expected Internal Audit capacity and other factors

- Additional audit procedures outside those included in 2012 risk assessment added

Updated Three-Year Audit Plan

Fiscal Year 2014		
Process Number	**Process Name**	**Brief Description**
1	Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).
7	Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.
8	Points for Prizes & Play It Again	Controls and procedures surrounding the Points for Prizes and Play It Again programs.
9	IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.
13	In-State Draw Security & Controls	Controls and procedures that ALC draws are secure and reliable.
15	Instant Ticket Warehouse Operations[1]	Controls and procedures surrounding the operation of the instant ticket warehouse, including procedures performed by ALC security and SGI personnel.

[1]Process previously reflected as FY 2015 audit per FY 2013 – FY 2015 audit plan. Process added to FY 2014 audit plan due to expected efficiencies in FY 2014, allowing for additional time to complete audits.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2014		
Process Number	**Process Name**	**Brief Description**
17	Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.
19	Human Resource Processes (Hiring, Benefits, Terminations, etc.)[2]	Controls and procedures surrounding hiring and termination of employees, benefits administration, and general human resources functions.
23	Claim Center Operations[3]	Controls and procedures surrounding product sales, claim validations, and prize payments.
29	Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.

[2]Process previously reflected as FY 2015 audit per FY 2013 – FY 2015 audit plan. Process added to FY 2014 audit plan due to expected efficiencies in FY 2014, allowing for additional time to complete audits.

[3]Process formerly referred to as "Prize Validations & Payments." Process name updated to better reflect nature of audit.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2014		
Process Number	**Process Name**	**Brief Description**
30	Federal & State Tax Withholding & Reporting	Controls and procedures surrounding federal and state tax withholding, reporting to appropriate taxing authorities, and remittance of amounts owed.
38	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.
39	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.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2014		
Process Number	**Process Name**	**Brief Description**
40A	Transparency Reporting & Compliance[4]	Controls and procedures surrounding required reporting of information and compliance with requirements under Act 303 of 2011, that created the *transparency.arkansas.gov* website.
43	Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA.
44	Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.
45	Financial Statements & CAFR Review (Annually)	Review of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.

[4]Process added as new auditable process for FY 2014 – FY 2016 audit plan. Process added to FY 2014 audit plan due to expected efficiencies in FY 2014, allowing for additional time to complete audits.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2014		
Process Number	**Process Name**	**Brief Description**
46	Instant Ticket Vendor Security Review (Annually)[5]	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.
47	Instant Ticket Reconstructions (Annually)[6]	Controls and procedures surrounding instant ticket reconstruction requests.

[5]Process added as annual consulting project in FY 2014 for each successive year. Internal Audit participation in actual review procedures will require travel, but planned to occur on a periodic basis (i.e. not every year). Estimated annual cost excluding travel is $4,000.

[6]Process added as annual audit in FY 2014 – 2016 audit plan.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2015		
Process Number	**Process Name**	**Brief Description**
3	Banking Contract Compliance	Compliance with Banking Contracts (Bank of the Ozarks).
4	Advertising Contract Compliance	Compliance with Advertising Contracts in place.
5	Record Retention	Development of and compliance with Records Retention policy and related laws, including the Arkansas Freedom of Information Act.
6	Legal Compliance & Monitoring	Overall monitoring of ALC compliance with applicable laws.
11	Instant Ticket Quality	Review of independent quality control reports for instant tickets.
12	Lottery Facilities Security & Controls	Controls and procedures that ensure ALC buildings and facilities are physically secure.
18	Background Checks	Controls and procedures surrounding the background check process.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2015		
Process Number	Process Name	Brief Description
20	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.
21	Sales Force Reporting	Controls and procedures surrounding sales force activities and the reporting provided to Management and the Arkansas Lottery Commission relative to sales data.
22	Advertising & Marketing (excluding 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.
24	Cash Receipts	Controls and procedures surrounding cash receipts.
26	Cash Management	Controls and procedures surrounding the management of cash, interest, and any investments.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2015		
Process Number	**Process Name**	**Brief Description**
27	Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.
31	Unclaimed Prize Fund	Controls and procedures surrounding the unclaimed prize fund.
40	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.
41	Lottery Vehicles	Controls and procedures surrounding lottery fleet management and maintenance.
42	Building & Facility Maintenance	Controls and procedures surrounding building and facility maintenance, including compliance with applicable laws and regulations.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2015		
Process Number	**Process Name**	**Brief Description**
44	Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.
45	Financial Statements & CAFR Review (Annually)	Review of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.
46	Instant Ticket Vendor Security Review (Annually)[7]	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.
47	Instant Ticket Reconstructions (Annually)[8]	Controls and procedures surrounding instant ticket reconstruction requests.

[7]Process added as annual consulting project in FY 2014 for each successive year. Internal Audit participation in actual review procedures will require travel, but planned to occur on a periodic basis (i.e. not every year). Estimated annual cost excluding travel is $4,000.

[8]Process added as annual audit in FY 2014 – 2016 audit plan.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2016		
Process Number	**Process Name**	**Brief Description**
9	IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.
10	IT Gaming Quality Assurance	Controls and procedures surrounding the Instant Game Management System, including access, game loading, testing and processing.
11	Instant Ticket Quality	Review of independent quality control reports for instant tickets.
14	Back Office System (BOS) Administration	Controls and procedures that ensure the ALC's BOS system is secure and that access to is controlled.
15	Instant Ticket Warehouse Operations	Controls and procedures surrounding the operation of the instant ticket warehouse, including procedures performed by ALC security and SGI personnel.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2016		
Process Number	**Process Name**	**Brief Description**
16	Licensing & Retailer Compliance	Controls and procedures surrounding the retailer licensing application and renewal process as well as maintenance of the retailer fidelity fund.
23	Claim Center Operations[9]	Controls and procedures surrounding product sales, claim validations, and prize payments.
25	Retailer Sweeps/Commissions/Accounts Receivable & Adjustments	Controls and procedures that ensure the proceeds from online and instant ticket games are collected fully and timely.
28	Accounts Payable/Purchasing/Expenditures	Controls and procedures surrounding the accounts payable, purchasing, and expense processes, including procurement and payment authorization, compliance with ALC procurement rules/laws, and the small and minority business program.

[9]Process formerly referred to as "Prize Validations & Payments." Process name updated to better reflect nature of audit.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2016		
Process Number	**Process Name**	**Brief Description**
33	Travel Reimbursements[10]	Controls and procedures surrounding travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.
34	Revenue/Prize Payments/Reserves – Online Games	Controls surrounding online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes.
35	Revenue/Prize Payments – Instant Ticket Games	Controls surrounding instant game sales, prize expenses, prizes payable, and unclaimed prizes.
36A	Financial Accounting & CAFR	Controls and procedures surrounding the annual financial statements, related notes to the statements, and other items/schedules included in the CAFR.
36	Accounting Close & Reporting	Controls and procedures surrounding the monthly close process and production of monthly financial statements.

[10]Process formerly referred to as "Employee Travel Reimbursements." Process name updated to better reflect nature of audit.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2016		
Process Number	**Process Name**	**Brief Description**
39	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.
40A	Transparency Reporting & Compliance[11]	Controls and procedures surrounding required reporting of information and compliance with requirements under Act 303 of 2011, that created the *transparency.arkansas.gov* website.
43	Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA
44	Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.

[11]Process added as new auditable process for FY 2014 – FY 2016 audit plan.

Updated Three-Year Audit Plan (continued)

Fiscal Year 2016		
Process Number	Process Name	Brief Description
45	Financial Statements & CAFR Review (Annually)	Review of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.
46	Instant Ticket Vendor Security Review (Annually)[12]	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.
47	Instant Ticket Reconstructions (Annually)[13]	Controls and procedures surrounding instant ticket reconstruction requests.

[12]Process added as annual consulting project in FY 2014 for each successive year. Internal Audit participation in actual review procedures will require travel, but planned to occur on a periodic basis (i.e. not every year). Estimated annual cost excluding travel is $4,000.
[13]Process added as annual audit in FY 2014 – 2016 audit plan.

Summary of Proposed Changes

FY 2014

- Shift of 2 audits from FY 2015 Plan to FY 2014 Plan
- Addition of new audit regarding transparency reporting and compliance process
- Addition of new annual audit regarding instant ticket reconstruction process
- Change of instant ticket security review from biennial to annual

FY 2015

- Shift of 2 audits from FY 2015 Plan to FY 2014 Plan
- Addition of new annual audit regarding instant ticket reconstruction process

Plan Development Considerations

- Internal Audit "Balancing Act" – flexibility/adaptability v. follow-through on solid plans

- Following through on planned coverage important

- Responding to change also important

- 2016 is three years away – a lot will change

"Hot Topics" for Future Consideration

- Impact of Social Media (in 2015 Plan)
- Impact of Mobile Applications
- Impact of New / Changing Products
- Impact of Service Organizations ("SOC 1" v. "SOC 2" and / or additional audits)

Updated Three-Year Plan Summary

- Some changes suggested
- Coverage of the 42 processes identified in 2012 planning for FY 2013 – 2015 Audit Plan maintained
- Risk Assessment is a continual process
- Flexibility with notification and approval

Questions???