



STATE OF ARKANSAS  
ARKANSAS LOTTERY COMMISSION

Post Office Box 3238  
Little Rock, Arkansas 72203-3238  
Phone: (501) 683-2000  
Fax: (501) 683-1878  
<http://myarkansaslottery.com>

September 21, 2012

The Honorable Johnny Key, Co-Chair  
The Honorable Mark Perry, Co-Chair  
Arkansas Lottery Commission Legislative Oversight Committee  
One Capitol Mall, Room R-501  
Little Rock, AR 72201

RE: Three-Year Internal Audit Plan

Dear Senator Key and Representative Perry:

On behalf of the Commissioners of the Arkansas Lottery Commission, please accept this letter as notification that pursuant to §23-115-206, an updated internal audit plan for the fiscal years beginning July 1, 2012 and ending June 30, 2015 was presented to the Commission's Audit & Legal Committee on September 7, 2012 and to the full Commission on September 17, 2012. Included with this plan was the proposal to complete the internal audit plan previously approved by the Commission on May 11, 2011 for the fiscal year ended June 30, 2012, which as of the date of my employment on July 9, 2012, had not been fully completed as planned.

On September 17, the Commission approved the proposed, updated three-year internal audit plan, including the proposal to complete the previously approved fiscal year 2012 internal audit plan, requesting review of this approach by the Arkansas Lottery Commission Legislative Oversight Committee.

Enclosed are the above-referenced internal audit plan for fiscal years ended June 30, 2013 through 2015, as well as a list of the in-process or incomplete projects from the internal audit plan for the fiscal year ended June 30, 2012. We would be grateful to receive a written response regarding the Commission's request for your review, including if any steps beyond providing this letter and related enclosures are necessary.

Respectfully submitted,

A handwritten signature in cursive script that reads "Donald Matthew Brown".

Donald Matthew Brown  
Internal Auditor

Enclosure

cc: Mr. Ben Pickard, Chairman, Arkansas Lottery Commission  
Mr. Smokey Campbell, Chair, Audit & Legal Committee, Arkansas Lottery Commission  
Mr. Bishop Woosley, Director, Arkansas Lottery Commission

**Arkansas Lottery Commission**  
**Internal Audit Plan**

Items In-Progress/Incomplete as of July 9, 2012 .....	2
Fiscal Year 2013 Plan .....	3
Fiscal Year 2014 Plan .....	4
Fiscal Year 2015 Plan .....	5

**Arkansas Lottery Commission**  
**Fiscal Year 2012 Audit Plan**  
**In-Process / Incomplete Projects as of July 9, 2012**

<b>Project Name</b>	<b>Brief Project Description</b>
Revenue/Prize Payments - Instant Ticket Games	Controls surrounding instant game sales, prize expenses, prizes payable, and unclaimed prizes.
Revenue/Prize Payments/Reserves - Online Games	Controls surrounding online game sales, prize expenses, prizes payable, reserve accounts, and unclaimed prizes.
Prize Validations & Payments	Controls and procedures surrounding high-tier prize validations and payments.
Employee Travel Reimbursements	Controls and procedures surrounding employee travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.
Retailer Sweeps/Commissions/Accounts Receivable & Adjustments	Controls and procedures that ensure the proceeds from online and instant ticket games are collected fully and timely.
Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.
Licensing & Retailer Compliance	Controls and procedures surrounding the retailer licensing application and renewal process as well as maintenance of the retailer fidelity fund.

**Arkansas Lottery Commission**  
**Proposed Fiscal Year 2013 Audit Plan**

<b>Project Name</b>	<b>Brief Project Description</b>
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.
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.
Back Office System (BOS) Administration	Controls and procedures that ensure the Lottery's BOS system is secure and that access to is controlled.
Employee Travel Reimbursements	Controls and procedures surrounding employee travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.
Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.
IT Gaming Quality Assurance	Controls and procedures surrounding the Instant Game Management System, including access, game loading, testing and processing.
Financial Planning/Budgeting	Controls and procedures surrounding the planning and budgeting process, including management assumptions, budget compilation, and long-range planning.
Instant Ticket Quality	Review of independent quality control reports for instant tickets.
Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.
Financial Statements & CAFR Review (Annually)	Compilation of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.
Instant Ticket Vendor Security Review (Biennially)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.

**Arkansas Lottery Commission**  
**Proposed Fiscal Year 2014 Audit Plan**

<b>Project Name</b>	<b>Brief Project Description</b>
Prize Validations & Payments	Controls and procedures surrounding high-tier prize validations and payments.
Federal & State Tax Withholding & Reporting	Controls and procedures surrounding federal and state tax withholding, reporting to appropriate taxing authorities, and remittance of amounts owed.
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.
IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.
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.
Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).
Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.
In-State Draw Security & Controls	Controls and procedures that ALC draws are secure and reliable.
Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.
Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.
Points for Prizes & Play It Again	Controls and procedures surrounding the Points for Prizes and Play It Again programs.
Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.
Financial Statements & CAFR Review (Annually)	Compilation of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.
Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA

**Arkansas Lottery Commission**  
**Proposed Fiscal Year 2015 Audit Plan**

<b>Project Name</b>	<b>Brief Project Description</b>
Cash Receipts	Controls and procedures surrounding cash receipts.
Instant Ticket Quality	Review of independent quality control reports for instant tickets.
Instant Ticket Warehouse Operations	Controls and procedures the operation of the instant ticket warehouse, including procedures performed by ALC security and SGI personnel.
Legal Compliance & Monitoring	Overall monitoring of ALC compliance with applicable laws.
Unclaimed Prize Fund	Controls and procedures surrounding the unclaimed prize fund.
Human Resource Processes (Hiring, Benefits, Terminations, etc.)	Controls and procedures surrounding hiring and termination of employees, benefits administration, and general human resources functions.
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.
Background Checks	Controls and procedures surrounding the background check process.
Record Retention	Development of and compliance with Records Retention policy and related laws, including the Arkansas Freedom of Information Act.
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.
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.
Lottery Facilities Security & Controls	Controls and procedures that ensure ALC buildings and facilities are physically secure.

**Arkansas Lottery Commission  
Proposed Fiscal Year 2015 Audit Plan**

<b>Project Name</b>	<b>Brief Project Description</b>
Building & Facility Maintenance	Controls and procedures surrounding building and facility maintenance, including compliance with applicable laws and regulations.
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.
Lottery Vehicles	Controls and procedures surrounding lottery fleet management and maintenance.
Banking Contract Compliance	Compliance with Banking Contracts (Bank of the Ozarks).
Advertising Contract Compliance	Compliance with Advertising Contracts in place.
Cash Management	Controls and procedures surrounding the management of cash, interest, and any investments.
Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.
Gaming System SSAE 16 SOC1 Review (Annually)	Controls and procedures gaming system vendor (Intralot) has in place surrounding services provided to the ALC.
Financial Statements & CAFR Review (Annually)	Compilation of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.
Instant Ticket Vendor Security Review (Biennially)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.