

# Arkansas

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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

March 12, 2021

Members of the Legislative Joint Auditing Committee:

The Chairs of the Legislative Joint Auditing Committee approved for Arkansas Legislative Audit (ALA) to issue this report. The fiscal year 2020 financial audit report for the Department of Finance and Administration – Office of the Arkansas Lottery (OAL), dated November 10, 2020, was issued without audit findings. However, two matters were brought to the Agency’s attention in a supplemental letter of the same date relating to two lottery draws. Reevaluation of the two draws resulted in the determination to notify the Sixth Judicial District Prosecuting Attorney of these matters.

### Background

During fieldwork for the OAL fiscal year 2020 financial audit, ALA tested 20 lottery drawings conducted by OAL Draw Managers and observed by OAL Internal Auditors and noted two exceptions:

1. During the Midday Draw held on February 12, 2020, ALA noted the OAL Auditor recorded the winning Cash 3 number incorrectly on the Activity Checklist. While the correct winning lottery numbers were paid by the Agency, a signed statement that the workpapers had been reviewed and approved by the OAL Internal Auditor was noted on the Daily Draws Work Paper Review Form without noting the error. This error did not result in a loss to OAL net proceeds.
2. During the Midday Draw held on May 26, 2020, ALA noted the winning Cash 4 number drawn by the random number generator “5602” was incorrectly keyed into the Back Office System (BOS) by both the OAL online vendor and the OAL Draw Manager as “5605.” Both the OAL Draw Manager and OAL Auditor also keyed the incorrect number into the computer program script that updates the winning numbers on the OAL website and IWON telephone system. As a result of the errors, the draw was compromised, and a non-winning number was declared the winning number. A signed statement that the workpapers had been reviewed and approval by the OAL Internal Auditor was noted on the Daily Draws Work Paper Review Form; however, the error was not discovered. This error resulted in a loss to OAL net proceeds totaling \$2,700 through improper disbursements as explained below.

On June 29, 2020, ALA notified the Agency that the lack of adherence to draw procedures, as well as a lack of proper review and supervision, had compromised the drawing on May 26, 2020, which could lead to the decline of lottery sales and net proceeds as a result of the loss of credibility in lottery drawings. ALA staff recommended the Agency review all Cash 3, Cash 4, and Natural State Jackpot drawings still within the 180-day claim period to determine if any other draws were compromised.

On July 8, 2020, the Agency informed us that OAL Internal Audit “reviewed the draw games from January 1, 2020 through June 30, 2020 and found no other instances of the wrong winning numbers being submitted.” In addition, during personnel interviews, ALA learned that the OAL Director of Security had conducted a separate review for the same time period mentioned above. The Agency was able to determine that nine tickets would have won had “5602” been declared the winning number. The OAL obtained the serial number of each of these tickets and was able to track two of them to individuals who had entered their tickets into the OAL loyalty program. The OAL was able to contact and pay these two “5602” ticket holders a total of \$300. This error resulted in the potential and actual cash payout of 17 declared winning tickets totaling \$3,400. The nine tickets of the actual winning number would have resulted in a potential payout of \$1,000 and an actual payout of \$300. (Excess payout of \$3,400 on ticket “5605” less \$700 not paid out on ticket “5602” equals a \$2,700 loss to OAL net proceeds.)

As previously mentioned, at the end of fieldwork for the fiscal year 2020 financial audit, ALA issued a supplemental letter dated November 10, 2020, stating draw observations were not properly performed, supervised, or reviewed. In that letter, ALA recommended the Agency implement additional draw procedures or revise current draw procedures, as well as provide additional training to all individuals involved in the lottery drawings, to ensure that lottery drawings are not compromised.

### **Objectives, Scope, and Methodology**

Objectives of this review were to:

- Examine all 1,115 Cash 3, Cash 4, and Natural State Jackpot draws that occurred between December 1, 2019 and July 31, 2020, to ensure the OAL declared the accurate winning numbers.
- Interview the OAL consultant contract employees located in Little Rock and all Lottery Division Directors to determine if they are aware of fraudulent activity at the OAL and provide them the opportunity to make ALA aware of any other audit-related matters.
- Review the recent procurement of random number generators to ensure the OAL followed state purchasing laws and regulations.

The methodology used in conducting this special review was developed uniquely to address the stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Results of Review**

The results of this review of selected transactions found no additional instances of misreported lottery draws. The original matters will be forwarded to the Sixth Judicial District Prosecuting Attorney.

ALA staff interviewed all five Lottery Division Directors and the two OAL consultant contract employees working for OAL in Little Rock. None were aware of any fraudulent activity at the OAL or any other matter that needed to be brought to our attention.

During the review, ALA staff were informed the OAL had changed its draw procedures by instructing OAL Draw Managers to no longer verbally call out winning numbers to the OAL online vendor employees but to, instead, have the OAL online vendor rely only on the email of the winning numbers sent. OAL Internal Audit staff are now required to enter the winning numbers into BOS while looking at the draw summary instead of relying on the numbers recorded by the OAL Draw Manager.

Finally, the OAL is in the process of purchasing random number generators designed to eliminate the potential for human error. ALA staff determined the procurement of the machines is not yet complete. On December 11, 2020, the OAL Chief Fiscal Officer approved the purchase requisition for the machines, and on December 16, 2020, the Department of Transformation and Shared Services - Office of State Procurement (OSP) made a sole source determination. The Department of Finance and Administration (DFA) approved the \$204,500 term contract with the sole source vendor on December 18, 2020. OSP documents state the contract will not need Arkansas Legislative Council (ALC) review as a services contract because most of the value of the contract is for commodity hardware and software items and the line specifying technical/general services has a total value of \$24,750, which falls below the \$25,000 threshold for reporting services contracts. On January 7, 2021, DFA approved a \$141,640 purchase order from the approved term contract. Therefore, to date, the OAL has complied with state purchasing laws and regulations in the procurement of random number generators.

In summary, as the result of a comprised OAL Draw on May 26, 2020, the Agency incurred a net loss of \$2,700.

We trust this review addressed your concerns to the extent possible. Please advise if we can further assist in this matter.

ARKANSAS LEGISLATIVE AUDIT



Tom Bullington, CPA  
Deputy Legislative Auditor

TB:ds

cc: The Honorable Asa Hutchinson, Governor  
The Honorable Larry Jegley, Sixth Judicial District Prosecuting Attorney  
Mr. Larry Walther, Secretary of Finance and Administration  
Mr. Eric Hagler, OAL Director  
Office of the Prosecutor Coordinator

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