

**Questions Related to
Financial and Compliance Audit of the Colorado Department of
Revenue, Division of Lottery For the Fiscal Year Ending June 30, 2018**

1. Is it possible to obtain a copy of the audit management representation letter dated November 20, 2017 for years ended June 30, 2017 and 2016?

This information is part of the audit workpapers. Access to prior year work papers will be granted upon award of the contract.

2. Is it possible to obtain journal entries proposed by the auditor for years ended June 30, 2017 and 2016, if not included in the management representation letter dated November 20, 2017?

The posted and passed adjustments for the prior two years are contained within our Fiscal Year 2016 and 2015 Statewide Single Audit Reports (Report Nos. 1601F and 1501F, respectively) in Appendix B, on our website: <http://leg.colorado.gov/audits/statewide-single-audit-fiscal-year-ended-june-30-2016> and <http://leg.colorado.gov/audits/statewide-single-audit-fiscal-year-ended-june-30-2015>.

3. What is the cost of the financial audit conducted by Eide Bailly LLP the prior three years?

The contract fee for Fiscal Year 2017 was \$70,530. The contract fee in Fiscal Year 2016 was \$68,480. In Fiscal Year 2015, the fee was \$67,800. The actual number of hours and levels of audit staff for this audit was not provided to us.

4. Please confirm the primary software systems used by Lottery for the General Ledger. Have IT controls been effective in the past?

According to Lottery staff, the primary system used is the Colorado Operations Resource Engine (CORE), which is the State's accounting system. This system's IT controls are primarily tested by the OSA's IT audit team, but the contract auditor is expected to perform some testing

related to CORE. No issues related to IT controls specific to Lottery have been noted in Fiscal Year 2016 or Fiscal Year 2017. Statewide issues for CORE have been noted and may be found in the Fiscal Year 2016 Statewide Single Audit Report. The Fiscal Year 2017 audit is still in progress. Our opinion has not been issued and the report has not been released.

5. Are there any planned changes to the current IT environment?

According to Lottery staff, no changes are planned for Fiscal Year 2018.

6. Does the OSA anticipate firms using IT specialists in testing of the IT controls?

In prior years, firms have not used IT specialists in testing of IT controls. The OSA is not aware of any changes in the upcoming year that would require the use of specialists.

7. Are internal controls over financial reporting identical across Lottery locations? Has any testing been performed at the various locations as part of the audit?

According to Lottery staff, controls are slightly different at each office counter where winning tickets are cashed and sold. Specific testing performed is outlined in the confidential work papers, which can be requested by the winning bidder after the contract is signed.

8. Are there documented policies and procedures related to internal controls over significant transaction cycles? Is this documentation centralized in one location or de-centralized?

According to Lottery staff, there are documents showing controls for each significant transaction type. They are mostly centralized.

9. Have any firms or outside consultants provided any type of service separate from the external audit over the past three years?

If so, would those be available for review by the auditors in planning?

The OSA has not contracted with any firm or consultant to perform services separate from the external audit over the past three years.

- 10.What does Lottery do to ensure that third party vendors have proper controls in place? If SSAE or SOC reports of the vendors are received and reviewed by Lottery, what is the frequency of the reports and what types are received?

According to Lottery staff, there is an annual SSAE 18 audit of the vendor.

- 11.Were there any additional fees billed in conjunction with any of the previous audits?

There were no additional audit fees billed that were outside the scope of the services listed in the RFP.

- 12.Have there been any regulatory audits performed during the year? If so, were there any findings or issues brought to management's attention?

According to Lottery staff, no. They do have an annual SSAE18 audit. The FY18 audit has not started, but the FY17 audit had only minor exceptions.

- 13.What is Lottery's preferred timing for interim and final fieldwork?

According to Lottery staff, fiscal year-end financial compliance work may begin at a time subsequent to the entrance conference as agreed upon by the contractor and Lottery. Remaining fiscal year-end financial work may begin after fiscal year end close, which is approximately the beginning of August. All testing generally needs to be done based on

the associated attest due dates as noted in the RFP documents. This timing is normally discussed during the entrance conference.

14. How many auditors were onsite during fieldwork and for how long?

The actual number of hours and levels of audit staff for this audit was not provided to us.

15. Has there been any significant turnover in the accounting and/or finance departments?

According to Lottery staff, there has been none.

16. What does Lottery like and what would Lottery want to change in regards to the current audit process?

According to Lottery staff, there are no changes that need to be made. The auditors should maintain communication on the audit status with the OSA's contract liaison.

17. Are there any specific accounting or auditing concerns? What, if any, new regulations, standards, or issues may cause the OSA or Lottery concern for the upcoming year and beyond?

According to Lottery staff, there are none.

18. Any significant events or transactions expected to occur in 2018 that are different/new/unusual that could materially impact audit procedures or scope of work?

According to Lottery staff, there are none.

19. Does the State have a required rotation policy in place for audit firms? How many years has the current auditor audited the Lottery? Will the current firm be permitted to submit a proposal?

Eide Bailly was the audit firm engaged to perform the audit in fiscal year 2017 and has been performing the audit since fiscal year 2013. The audit firm must comply with the requirements of the RFP and therefore, would be allowed to propose if they comply with the requirements. See Section I, Part N. for information on the eligibility of firms to propose.

20. Does Lottery staff draft the financial statements or do you expect auditor assistance with this function?

Lottery staff draft the financial statements and provide them to the external auditor. We expect the audit firm to maintain independence during the engagement.

21. Does Colorado Lottery have an internal audit function or use internal audit services provided by the State that performs testing of internal control functions and/or tests compliance over games and online drawings?

According to Lottery staff, Lottery does not have an internal audit function.

22. Does the Lottery have an in-house Management Information system (MIS) Division that oversees the activities associated with the systems and data processing functions of the Lottery that the third party operates, including instant ticket transaction processing, back office functionality, order and distribution systems, financial applications, and retailer network support, etc.?

According to Lottery staff, Lottery does have an in-house MIS staff that maintains the Lottery's back office system. The Lottery back office system performs all of the functions that you mentioned. Their in-house staff does not oversee the third-party system activities. However, they do have another vendor that independently processes transactions of the third-party system to make sure it is correct.

23. Will all questions and answers generated from this RFP be included as an addendum and distributed?

All questions received are distributed to everyone who has submitted questions and are posted online. Questions asking for similar information are combined.

24. Is there a process for posting follow-up questions after receipt and review of the Office of the State Auditor inquiry response document?

There is no process for follow-up questions to be submitted and addressed. Refer to Section H of the RFP for the schedule for this process.

25. Will the successful bidder have access to:

- a. Prior year attestation memos?
- b. Prior year audit workpapers?

Access to prior year work papers may be requested by the winning bidder after the contract is signed.

26. Does the Lottery have the ability to provide the majority of the requested audit work papers electronically to facilitate off-site audit work to minimize travel costs?

According to Lottery staff, they do have the ability to provide work papers electronically.

27. Does the Lottery have a working copy of the prior year PBC (prepared by client) audit lists and confirmations (if applicable)?

This information is part of the audit workpapers. Access to prior year work papers may be requested by the winning bidder after the contract is signed.

28. Were all of the requested deadlines met this past year?

The requested deadlines set by the OSA were met in Fiscal Year 2017.

29. Comparing the final issuance deadline of October 31st to the prior year audit report date, was there a reason for the delayed issuance of last year's report?

The timing of the audit is dependent on the auditor providing audited drafts of the financial statements and findings, as applicable, for review by the OSA in early October. The contract audit firm must wait to date its opinion until all reviews have been completed by the OSA and Division of Lottery in addition to the auditor. Therefore, the auditor needs to plan the audit and work with the Lottery to ensure the timely completion of the audit. In addition, the Legislative Audit Committee (LAC) must release the audit report. The Committee only has certain meeting dates. We have traditionally planned for the audit report to be released by the LAC during the December Committee hearings.

30. Regarding D (page 5) of the RFP, is it common for the auditor of the Lottery to testify before an audit or legislative committee?

The LAC schedule is determined on a year by year basis. The audit firm did testify to the LAC about the Lottery report for Fiscal Year 2017 in December 2017.

31. For this RFP, who will comprise the selection committee (i.e., Office of the State Auditor personnel, Lottery personnel, etc.)?

The final determination is made by the State Auditor and Deputy State Auditor after two independent evaluations are made by OSA staff. The agency can have input on the selection of the audit firm but does not make the final decision.

32. As the Lottery considers a one-year contract, with options to extend for four subsequent years, does the State prefer maximum price information for all five years?

As stated in Part 2 of Section G in the RFP, "The proposal must state the total inclusive maximum fee for which the work requested will be

done." This should be the fee for Fiscal Year 2018. Future fee increases are negotiated on a yearly basis.

33. Historically, how many auditors does the Lottery have on-site during audit interim fieldwork and final fieldwork?

The actual number of hours and levels of audit staff for this audit was not provided to us.

34. As there is office and warehouse space located in Pueblo, Denver, Grand Junction, and Fort Collins, where has audit fieldwork historically been conducted? To what extent have the external auditors been required to perform audit work at the various locations?

Historically, fieldwork has primarily, but not exclusively, been conducted at the Pueblo office where accounting staff reside.

35. Does the State Treasurer provide the Lottery with year-end fair value adjustments for their allocation of the State of Colorado's investment pool? If so, when have these adjustments historically been received?

The OSA performs test work over the investment pool held with the Treasurer's office each year. That team will provide a confirmation of the pooled cash balance for the agency.

36. In anticipation of the adoption of GASB 75, will the appropriate detailed information at the Lottery level be provided by the actuary? Will Lottery personnel prepare the computations and disclosures for GASB 75?

The Office of State Controller had provided GASB 68 entries to State Departments and Higher Education Institutions for Fiscal Year 2017. The Office of State Controller plans to provide similar information regarding GASB 75. However, the auditor is responsible for auditing financial statement amounts and related note disclosures.

37. Is the Lottery's external auditor required to complete census testing for the net pension liability established by GASB Statement No. 68, Accounting and Financial Reporting for Pensions, or does that responsibility lie with the external auditors of the Colorado Public Employee Retirement Association?

The OSA coordinates census testing for state agencies. If Lottery is selected, the OSA may choose to engage with Lottery's contractor to perform the work at that agency for an additional fee.

38. Are there any other GASBs that will be effective and adopted by the Lottery for the year ended June 30, 2018?

GASB Statement Nos. 81 and 85 will be implemented in Fiscal Year 2018 in addition to GASB Statement No. 75.

39. As the prize liability is estimated based on various factors, does management perform a retrospective review of the prize liability to ensure continued adequacy of the estimation methodology?

According to Lottery staff, they do not.

40. As the calculation of income available for distribution, specifically net proceeds, is not statutorily defined, how has the Lottery ensured statutory compliance?

According to Lottery staff, the Lottery has a reasonable calculation of reserves needed, and distributes any remaining income.