

Office of the State Auditor
Financial and Compliance Audit of Colorado Lottery
Fiscal Year 2023

Responses to Prospective Bidder Inquiries

1. Please confirm the primary software systems used by the Lottery. Have the IT General Controls been effective in the past?

As determined through risk assessment procedures, the primary software systems are the Colorado Operations Resource Engine, Lottery Games Processing System (IGT), and Lottery Internal Control System. IT Control effectiveness information is part of the audit workpapers. There have been no IT control findings for Lottery in fiscal years 2021 or 2022.
2. Are there any planned changes to the current IT environment?

According to Lottery staff, the IGT system, which serves as the Lottery's accounting system, is currently going out for bid and is slated to be upgraded in July 2025. No other changes are planned for the current IT environment.
3. Does the OSA anticipate firms using IT specialists in testing of the IT controls?

The awarded bidder in consultation with the OSA will be expected to conduct risk assessment procedures to determine the significant IT process areas and IT general controls to perform on those IT systems that are significant to the financial statements and/or a major program compliance requirement. The awarded bidder will be expected to determine whether the use of an IT specialist is necessary to perform this work..
4. The 2022 financial statements indicate there are multiple offices across the State. Are internal controls over financial reporting identical across the various offices? Has any testing or is any testing required to be performed at the various locations as part of the audit?

According to Lottery staff, the four offices across the State serve as claims centers for Lottery players. The internal controls are similar in all four offices with the Pueblo office being the only one processing mail-in claims. Testing has generally been centered around the Pueblo office, the Lottery's headquarters, which also conducts the Lottery's daily drawings.
5. Are there documented policies and procedures related to internal controls over significant transaction cycles (for example payroll, purchasing and disbursements, revenues and receivables, IT, etc.)? Is this documentation centralized in one location or de-centralized?

According to Lottery staff, there are policies and procedures in place related to internal controls, these are generally issued by the Department of Revenue (DOR) as the Lottery is a division within DOR, are located on the DOR's internal network and are available upon request. Lottery also complies with the following policies and/or procedures:

- Colorado Office of State Controller through Fiscal Rules and Policies and Procedures seen here: <https://osc.colorado.gov/financial-operations/fiscal-rules-procedures>
 - Governor's Office of Information Technology's Colorado Information Security Policies (CISPs) which can be found at the follow link: <https://oit.colorado.gov/standards-policies-guides/technical-standards-policies>.
6. Have any firms or outside consultants provided any type of service separate from the external audit (ex: IT or agreed-upon procedures) over the past three years? If so, please specify the service provided. If so, would those be available to for review by the auditors in planning?
According to Lottery staff, the Lottery systems (IGT and Lottery's accounting system) are subject to annual SOC1, Type II engagements . The 2023 reports are expected to be available by May 1, 2023.
 7. The RFP mentions that the Lottery contracts with third-party vendors. What does the Lottery do to ensure the third-party vendors have proper controls in place? If SSAE or SOC reports of the vendors are received and reviewed by the Lottery what is the frequency of the reports and what type of reports are received?
According to Lottery staff, the gaming system (IGT) is a vendor supported commercial software that is subject to an annual SOC1, Type II audit. Lottery personnel work closely with the service organizations, including in-person fieldwork, during the entire engagement to ensure proper controls are in place and operating effectively. The SOC1 reports are reviewed by Lottery.
 8. What were the audit fees for the prior three years?
The contract fee for Fiscal Year 2022 was \$80,500, 2021 was \$75,100, Fiscal Year 2020 was \$74,170.
 9. Were there any additional fees billed in conjunction with any of the previous audits? If so, what was the nature of such additional billings?
In Fiscal Year 2022, there was a contract amendment for \$1,500 for performing additional audit procedures related to Lottery's implementation of GASB 87. This amendment amount is included in the audit fees identified in question #8.
 10. 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, Lottery did have regulatory audits performed during the year, including an annual SOC1, Type 2 engagements, along with IGT Cyber Security Audits, Multi-State Lottery Association (MUSL) onsite Self Assessments, Automated Draw Machine forensic reviews and scratch ticket evaluations. There were no findings as a result of these audits. In addition, Lottery is subject to the Statewide Financial Audit. There were no findings identified in the Fiscal Year 2022 Statewide Financial audit for Lottery.

11. What is the Lottery's preferred timing for interim and final fieldwork? How many auditors were onsite for both interim and final fieldwork and for how long? Can work be done remotely or in a hybrid capacity?

According to Lottery staff, interim fieldwork is preferred to be done in a June/July time frame, with final fieldwork performed in early August. Work done in a hybrid capacity has worked best. Most work can be done remotely, however, in person is more efficient in some circumstances, preferably in August. Lottery doesn't have information related to how many auditors were onsite and for how long.

12. How many of the State's exhibits are applicable to Lottery?

According to Lottery staff, Lottery generally submit Exhibits C2 (new in FY22), F2 (new in FY22), F3 (new in FY22), I, L1, M, R, W2 and W4 (new in FY22). The exhibit templates and instructions are on the Office of the State Controller's website at: <https://www.colorado.gov/pacific/osc/fiscalprocedures>.

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

According to Lottery staff, the current audit process has worked well in recent years. Lottery likes that the auditors were available to provide expertise surrounding the issuance of the audit report, especially surrounding the impact of new GASB statements. Communication between the auditors and Lottery accountants was maintained at all times.

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

The OSA does not have any specific accounting or auditing concerns pertaining to Colorado Lottery.

According to Lottery staff, Lottery does not have concerns other than the recording of new GASB standards.

15. Any significant events or transactions expected to occur in 2023 that are different/new/unusual that could materially impact audit procedures or the scope of work?

According to Lottery staff, Lottery does not believe there are any significant events or transaction expected to occur in Fiscal Year 2023.

16. Has Lottery determined the impact of GASB Statement No. 96 on its financials? If it is applicable how many contracts are expected to be recorded and how many have been analyzed?

According to Lottery staff, Lottery is currently identifying the impact of GASB Statement No. 96, with the identification of at least one contract expected to be recorded. Lottery is expecting this analysis to be completed by the end of April 2023.

17. Are there any known significant transactions/activities planned for the future periods covered by the Request for Proposal that should be considered in our proposed fee structure?

According to Lottery staff, there are no transactions or activities to consider.

18. What is the reason for the RFP? Is the current audit firm allowed to bid and how long have they been conducting the audit?

As noted in the RFP in Section I, Part P.4. states “The firm selected will be awarded a one-year contract which may be renewed on an annual basis for up to four additional years subject to acceptable performance and costs.” Therefore, the audit is subject to a RFP every 5 years. The current audit firm was awarded the RFP twice and has performed the audit for Fiscal Years 2012 through 2022. This makes them ineligible to bid as OSA policy requires a 10-year rotation for audit firms. See Section I, Part N. for information on the eligibility of firms to propose.

19. Does the Division prepare the financial statements or does the auditing firm assist with this preparation?

According to Lottery staff, Lottery prepares the financial statements. If necessary, the auditing firm assists or makes recommendations when the presentation of the financial statements requires changes.

20. Have there been any changes or departures in key staff, at all levels, in the past year that would affect the upcoming audit? Are you aware of any upcoming departures of key financial reporting personnel due to retirements, etc. in the next year or two?

According to Lottery staff, there have not been any changes or departures in key staff in the past year, and the Lottery is not aware of any upcoming departures.