

MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE.

The meeting was called to order by Chairperson Nancey Harrington at 10:30 a.m. on February 1, 2001 in Room 245-N of the Capitol.

All members were present.

Committee staff present: Russell Mills, Legislative Research Department
Dennis Hodgins, Legislative Research Department
Theresa Kiernan, Office of the Revisor
Nikki Kraus, Committee Secretary

Conferees appearing before the committee: Barb Hinton, Legislative Post Audit
Trent LeDoux, presenting testimony from Senator Lana Olen

Others attending: See Attached List

Chairman Harrington opened the meeting by allowing Senator Barnett to introduce his mother and father-in-law, Mr. And Mrs. York, and welcoming them to the committee meeting.

Chairman Harrington then asked for bill introductions. Michael Byington from the Envision group asked for the introduction of a bill concerning developing a mechanism within the department of transportation to deal with pedestrian safety issues and pedestrian rights.

Senator Barnett made a motion to introduce the bill. Senator Gooch seconded that motion. The motion passed.

Senator Harrington then called for bill introductions.

Senator Tim Huelskamp asked for introduction of a bill from the Committee on Ways and Means. Theresa Kiernan explained that this was an amendment to **SB 39—Concerning income taxation and community services** that would prohibit the use of public funds for the morning-after drug, RU-480. Chairman Harrington said that the amendment was being introduced in Federal and State Affairs, but would most likely be referred to the Committee on Public Health and Welfare.

Senator Lyon moved that the bill be introduced as amended. Senator Gilstrap seconded that motion. The motion passed.

Chairman Harrington opened the hearing on:

SB 34 Audits of the Kansas Lottery

Ms. Barb Hinton, Legislative Post Audit, following congratulations from the committee on her department's recent award, presented her testimony. (Attachment 1).

Ms. Hinton stated that she was concerned about wording, and specified that she thought that since the lottery had just undergone an audit, in keeping with the three year audit cycle, the next one ought to be in 2004, not 2002.

Senator Gilstrap then asked where the legislative post audit act which was referred to in the bill was located and Ms. Hinton pointed out the page and gave a brief explanation.

CONTINUATION SHEET
MINUTES OF THE SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
February 1, 2001

In response to a question from Senator Gooch, Ms. Hinton stated that there is an annual financial compliance audit, but that was a financial audit only and did not deal with security issues. In response to further questions, she stated that security issues dealt not only with the tickets themselves, but also with computer access.

Mr. Ed Van Petten, Executive Director of the Kansas Lottery, then stated that the Lottery had some concerns with **SB 34** and that it may need a couple of amendments. Regarding scratch tickets, he stated that they did have the potential for malicious changes because there was a logarithm used to decipher the bar codes on the tickets.

Senator Gooch stated that he did not understand how someone could research problems with so much security, as he had seen at the Texas gaming meeting the previous weekend.

Trent LeDoux then presented testimony on behalf of Senator Lana Oleen in support of **SB 34**. (Attachment 2).

Chairman Harrington asked for questions and there were none.

Chairman Harrington invited Mr. Van Petten to propose amendments that he had requested earlier. Mr. Van Petten stated that he had spoken with Senator Oleen and that she and he had discussed some changes in the bill. He stated that one of these changes was a language change from having a security audit at least every three years to every three years because of a need to budget for enough money to cover the cost of this relatively expensive operation. He stated that although he was aware of the makeup of the current committee, he was unsure of it in the future. He also stated that the background of whoever was contracted with the lottery would be fully checked.

Ms. Hinton requested that the language be clarified in the bill so that it was clear that Post Audit would have the same ability and authority over background checks on contractors.

Senator Vratil stated that he objected to excessive language in the bill, and felt that it already gave Post Audit the powers it needed. He also stated that he approved of the language which made a security audit possible more than once every three years if deemed necessary.

Senator Vratil then moved to amend **SB 34** to change line 32 from 2002 to 2004 for the date of the next security audit in order to stay with the three year plan. The motion was seconded by Senator O'Connor. The motion passed.

Senator Gooch stated that he also approved of the language in the bill which indicated that a security audit of the lottery bill would be held at least every three years.

Chairman Harrington announced that there would be a meeting at the rail of the entire committee upon adjournment of the Senate.

The meeting was adjourned at 11:13 a.m. The next scheduled meeting is upon adjournment of the Senate on February 1, 2001.

**SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
GUEST LIST**

DATE: February 1, 2001

NAME	REPRESENTING
Roger Franke	KGC
Corky McHugh	PPKM
Barb Hinton	Post Audit
RANDY TONELOR	POST AUDIT
Patrick Hurley	GTECH
Loy E. Alford	Emulsion
Warren York from York	Emulsion
Judy Shaw	Kearney Law Office
Michael Byington	ENVISION
ED VAN PETTEN	KANSAS LOTTERY
Keith Kocher	KS Lottery
Glen Thompson	Stand Up For KS.

**Testimony for the
Senate Federal and State Affairs Committee
on Senate Bill 34**

Barb Hinton, Legislative Post Auditor

February 1, 2001

Madam Chairman and members of the Committee, thank you for allowing me to appear before you on SB 34 on behalf of the Legislative Post Audit Committee. This bill addresses a recommendation made by the Contract Audit Committee and approved by the full Post Audit Committee. The Contract Audit Committee is the body that awards contracts for financial-compliance audits our office contracts out, and consists of 3 members of the Post Audit Committee (including the Chair and Vice-Chair), the Secretary of Administration, and the Post Auditor.

As introduced by the Post Audit Committee, the bill before you would amend current State law to do the following:

- **Require a security audit of the Lottery at least once every 3 years.** During their discussions, members of both Committees were concerned there was no set time period for the Lottery to have a security audit. Current law only requires the Lottery's Executive Director to arrange for a periodic "study and evaluation of all aspects of security in the operation of the Kansas Lottery."

Lottery operations have a number of inherent security risks. For example, on-line or scratch tickets could be altered, stolen, or lost, whether they're in a warehouse, at a retailers, or inside a computer. Computer programs that create, identify, or validate winning tickets could be altered, or the information from them could be stolen. Power outages or sabotage could bring lottery operations or ticket sales to a halt. Retailers who sell tickets could send the State the wrong amount of money. Such risks can be managed only when effective procedures and stringent controls are in place and are being followed. Regularly scheduled audits can help ensure that the Lottery's operations are adequately secured.

Lottery officials could tell you how many security audits actually have been conducted since the Lottery's inception, but our office was involved in one such audit in 1994 after the Legislature included a requirement for a security audit in the omnibus bill. Our office solicited and evaluated bids for that audit, and the Contract Audit Committee awarded the contract to the firm of Ernst & Young.

The resulting audit concluded overall that no significant security "exposures" existed, but it did make recommendations for improving security in a number of areas, particularly over

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the Lottery's computer systems. A particular area of concern was user access capabilities in several specific areas.

To obtain some quick background information, my staff contacted audit officials in 10 states to determine what their state requirements are for Lottery security audits. They reported that lotteries in 7 of those 10 states get a regular security audit:

- ✓ **4 are required to get security audits by law** (in 3 states, audits are required every 2 years; 1 requires an audit on a regular basis).
 - ✓ **3 conduct security audits as a matter of policy** (in 1 state, the Lottery requires a security audit every 3 years; in 2 states, the auditors' offices have decided to expand their financial-compliance audit work to include extensive security work. One of those audits is done annually, the other every 3-4 years.)
- **Bring the responsibility for those audits under the Legislative Post Audit Act.** Current law makes the Lottery's Executive Director responsible for engaging the independent firm that would conduct the security audit. With the proposed change, Legislative Post Audit would become responsible for that function, just as we are for the annual financial-compliance audit of the Lottery. Under the provisions of the Post Audit Act, our office would solicit bids using specifications we developed in consultation with the Executive Director, and would analyze all bids received. The Contract Audit Committee would award the final contract. The audit would be presented to the Post Audit Committee when it was completed, and would be subject to our annual follow-up process to help determine whether Lottery officials had implemented any recommendations.

The Committees felt this provision would provide better legislative oversight of the Lottery's security operations, and would help ensure that the Lottery continues to be accountable and responsive.

Two other minor points. First, you'll notice that the bill uses the word "person" rather than "firm" when it talks about who would conduct the audit. That wording is deliberate. The Post Audit Act defines "firm" as a CPA firm, but other entities actually may have more experience in conducting lottery security audits.

Second, the date established in the bill for the first security audit is December 31, 2002. Given that the Lottery has just awarded a contract for a security audit, and in keeping with the notion of a 3-year cycle, it would make sense to change that date to December 31, 2004.

Madam Chairman, that concludes my remarks. I'd be happy to answer any questions.



TOPEKA

SENATE CHAMBER

TESTIMONY
SENATE FEDERAL AND STATE AFFAIRS COMMITTEE
THURSDAY, FEBRUARY 1, 2001
SENATE BILL 34

Madam Chair and members of the Committee, thank you for allowing me the opportunity to address you on Senate Bill 34. I served as Chair of the Legislative Post Audit Committee when this bill was introduced last month.

As you may know, existing State law requires the Lottery's Executive Director to periodically arrange for "a comprehensive study and evaluation of all aspects of security in the operation of the Kansas Lottery." However, the law doesn't specify how frequently such security audits are to be done.

The events of the last six months have reminded us all again of the importance of maintaining adequate security over the Lottery's operations, and of maintaining the public's trust in our Lottery's integrity. The bill before you would require there to be a security audit of the Lottery's operations at least once every three years. Having an audit done on a regular cycle will provide greater assurance that security issues are being appropriately scrutinized and addressed. I see it as an investment in the Lottery's future.

This bill also would bring responsibility for future security audits of the Lottery under Legislative Post Audit and the Legislative Post Audit Committee. The Legislature used this same approach when it called for a security audit of the Lottery in the 1994 omnibus bill. Because of the highly specialized nature of Lottery security issues, the Legislative Post Audit Committee directed Post Audit to contract the audit to a specialized technical firm for the 1994 audit. The same process outlined in Senate Bill 34 was used at that time for that security audit, which resulted in a quality audit at a cost to the Lottery of \$64,000.

The changes proposed in this bill would allow for better legislative oversight of the Lottery's operations, and it would provide more timely information on whether those operations are sufficiently secure. For those reasons, I would strongly urge your support and passage of Senate Bill 34.

Respectfully submitted,

Lana Oleen
Senate Majority Leader

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Attachment 2-1