

**Office of the Secretary of State**

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August 4, 2016

Barry Pack, Acting Director  
Oregon State Lottery  
500 Airport Road SE  
Salem, OR 97301

Dear Mr. Pack:

We received a hotline report alleging lack of independence with the quality assurance process and project management for Oregon State Lottery's (Lottery) video lottery technology modernization project (referred to as Program). The report alleged Lottery contracted with Gaming Laboratories International, LLC (GLI) to provide quality assurance of Lottery's modernization project and to employ a GLI employee to perform the role of Lottery's Program manager for the project, which created a conflict of interest.

**Background**

Lottery is modernizing its Video Lottery technology infrastructure in accordance with its statutory mandate to generate revenues for the State of Oregon commensurate with the public good. Some components of the Program include the development and integration of a new Video Lottery gaming system, (the Intelligen System), the procurement and conversion of Video Lottery terminals to the G2S protocol, and upgrading the gaming network infrastructure to support the new terminals.

In December 2014, Lottery entered into a master services agreement with GLI to establish terms and conditions applicable to contracts for services (work order contracts) for quality assurance (QA) and Program management. Lottery entered into four work order contracts with GLI:

1. December 2014 (QA), Video Lottery Gaming System (VLGS) QA in GLI facility;
2. May 2015 (QA), VLGS acceptance testing and security testing including a vulnerability assessment and penetration test, and test strategy development for VLGS integration in Lottery's primary data center and backup data center;
3. June 2015, certain project management services by GLI's project management consultant;
4. June 2015 (QA), VLGS QA and management of Lottery staff to provide and execute Test Plans and Test Cases, including VLGS production and backup environment validation; Lottery system interfaces; baseline system regression; failover; security; data validation; reporting; load and performance; and cutover.

According to its website, GLI provides testing, certification and professional services to the global gaming industry. Clients are gaming regulators, suppliers and operators. GLI's professional staff includes mathematicians, hardware and software engineers, compliance engineers, system and communication engineers, high-tech engineers and quality assurance

specialists. In addition to testing, GLI offers consultation, auditing, field inspections, security audits, responsible gaming, project management, training, and technical services.

### **Methodology**

To address this hotline call, we obtained and reviewed copies of the master services agreement and work order contracts related to quality assurance and program management. We reviewed relevant Oregon statutes and policies. We also interviewed Lottery officials about the allegations.

Because our work was limited to a review of the specific allegations, we were not required to and did not conduct the investigation in accordance with generally accepted government auditing standards. Staff from our office, who were not involved with the investigation, reviewed this communication for accuracy, checking facts against supporting evidence.

### **Results**

We confirmed with Lottery management that it engaged a project management consultant employed by GLI as Lottery's Senior Program Manager for the modernization project. Lottery management said they began managing the upgrade program themselves, but soon realized they did not have the expertise needed to ensure a successful upgrade. They indicated best practice would be to hire a Senior Program Manager outside the firm it contracted with for quality assurance services, but it was their belief that the individual engaged was the most-qualified expert in this field.

Program management services to be delivered pursuant to Work Order Contract #3 include:

- consultations with the Steering Committee for, and development of, an integrated Program schedule and its maintenance, based upon information obtained from each of the seven project managers;
- Program management consulting with the Steering Committee and Program management support functions in Program status reporting; Program risk and issue management; Program governance; Program budget management; Program resource management; Program change management; and Program benefit management;
- coordination with Project Managers, including Project Manager meetings and Project Working Committee group; and
- deliverables; including project status reports, project schedules, project risks and issues, project budget report, VLTMP integrated program schedule, Program health report, Steering Committee meetings, other deliverables as requested by Lottery, and engagement closure.

### *Oregon's recent actions to strengthen oversight of technology projects*

In 2014, the Oregon Legislative Assembly passed House Bill 4122, the *Independent QA Act*, which requires agencies, unless exempt from the Public Contracting Code, to obtain independent quality management services to review information technology projects with an estimated cost exceeding \$5 million. The Department of Administrative Services subsequently issued in July 2015 policy number 107-004-030, *Independent Quality Management Services for Information Technology*, to provide information and direction for requirements regarding independent quality management services.

DAS' policy references ISO 12207, an international standard for software and configuration of services of a system, and PMBOK, the Project Management Institute's *Project Management Body of Knowledge* Guide. The Project Management Institute is a U.S. nonprofit professional organization for project management. It offers several project management certifications that are globally recognized.

#### Applicability to Lottery

While Lottery is exempt from the Public Contracting Code pursuant to ORS 461.120 and from state information technology management pursuant to ORS 184.473, DAS' policy and the PMBOK guide comprise good practice for quality assurance services for information technology investments. These guidelines recommend an independent quality assurance function throughout the project. The DAS policy defines "independence" as delivery of services by a third party free from real or perceived conflict with the interests of the organization and its contractors involved in project design, development, implementation, deployment and operational activity. The policy goes on to provide a specific measure of independence: Independent Verification and Validation is the set of verification and validation activities performed by an entity not under the managerial or technical control of the organization or any of its other contractors.

A conflict of interest can be described as any situation in which an individual or organization is in a position to unfairly influence a professional or official capacity for personal or organizational benefit. The existence of a conflict of interest may not be evidence of wrongdoing. A conflict of interest can, however, become a problem when an individual tries to influence the outcome of a decision for personal or organizational benefit.

Lottery management took steps to mitigate potential effects from the conflict of interest. First, it included specific language in its contract to delineate program management services, limiting those services to consulting, coordinating and facilitating. In addition, Work Order Contract #3 contains the following interest disclosure in the terms and agreements section of the contract:

*GLI acknowledges and agrees that it is a vendor under contract with Lottery for quality assurance testing of the VLGS and other services related to the VLGS Project. GLI, through the Senior Program Manager, shall not make any recommendations, offer any opinions or make any final decisions in connection with GLI's services under any other contracts with Lottery and shall not unfairly influence any deliberations concerning those contracts in favor of GLI. GLI's function as Senior Program Manager is to collect and disseminate information and data to facilitate the Steering Committee in its review and decision making.*

Thirdly, Lottery management assigned a Lottery manager to act as a "twin" to the GLI Senior Program Manager, working closely with him in all of his daily work functions. Furthermore, Lottery management indicated the Senior Program Manager is not performing QA work or project management functions, but is only the liaison between the GLI project managers and the Lottery Steering Committee. Lottery staff on the committee make the decisions about the project.

#### **Recommendation**

When conflicts of interest cannot be eliminated they should be managed or mitigated to reduce the risk of undue influence on decisions. In Lottery's case, it has deliberately opted to mitigate

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potential risks by delineating deliverables in its contract with GLI and assigning a Lottery manager to work with the Senior Program Manager.

**We recommend** Lottery management continue to closely monitor the conflict of interest created by its contract with GLI for a Senior Program Manager to help ensure Lottery's mitigation efforts are successful.

**Lottery's management response**

*The Lottery agrees with the recommendation and will continue to effectively manage the program management services provided by GLI through its existing risk mitigation efforts, which include delineating deliverables in its contract with GLI and assigning a Lottery manager to work with the Senior Program Manager.*

We appreciate your staff's assistance and cooperation during this review. Should you have any questions, please contact Dale Bond, Audit Manager, at (503) 986-2351.

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Kathy Ortega, Chief Financial Officer  
Trinh Tran, Contracts Officer and Contracts Administration Manager  
Robert Martinez, Chief Internal Auditor