

TEXAS LOTTERY COMMISSION INTERNAL AUDIT DIVISION



An Internal Audit of JACKPOT ESTIMATION

IA #10-003
May 2010

Mary Ann Williamson
Chairman

David J. Schenck
Commissioner

J. Winston Krause
Commissioner



TEXAS LOTTERY COMMISSION

Gary Grief, *Executive Director*

Philip D. Sanderson, *Charitable Bingo Operations Director*

May 21, 2010

Ms. Mary Ann Williamson
Texas Lottery Commission
P.O. Box 16630
Austin, TX 78761-6630

Dear Chair Williamson:

The accompanying report details Internal Audit's recently completed review of Jackpot Estimation Procedures. The purpose of the audit was to verify that jackpot estimations, and the resulting advertised amounts, are derived in accordance with commission policies and procedures. In addition, we sought to assess relevant controls to ensure key objectives are met. At the time of our audit and for the period under review, Texas did not participate in the Powerball game. Accordingly, our review was limited to Texas Two Step, Lotto Texas and Mega Millions jackpot estimations.

Overall, based on the results of our review and testing, jackpot estimations and the resulting advertised jackpot amounts are derived in accordance with agency policies and procedures. However, management should strengthen controls and improve current processes to ensure key objectives continue to be met.

Responsible management has expressed agreement with Internal Audit's conclusions and recommendations detailed in the report and has included corrective actions in its responses. If you desire further information concerning this review, please do not hesitate to contact me at 512/344-5488.

Respectfully submitted,

A handwritten signature in blue ink that reads "Catherine A. Melvin".

Catherine A. Melvin, CIA, CPA
Director, Internal Audit Division

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EXECUTIVE SUMMARY

The Texas Lottery Commission (TLC) offers on-line games with rolling jackpots. Drawings are conducted for these games twice per week, necessitating biweekly jackpot estimations for each game. Estimations of anticipated sales are performed to set the jackpot amount to be advertised for each game's drawing. At the time of our audit and for the period under review, three such games were offered in Texas - Texas Two Step, Lotto Texas and Mega Millions. Texas had not yet elected to participate in the Powerball game. Accordingly, our review did not include a review of Powerball jackpot estimations.

The objective of our audit was to verify that jackpot estimations, and the resulting advertised amounts, are derived in accordance with commission policies and procedures. In addition, we sought to assess relevant controls to ensure key objectives are met.

Overall, based on the results of our review and testing, jackpot estimations and the resulting advertised jackpot amounts are derived in accordance with agency policies and procedures. However, management should strengthen controls and improve current processes to ensure key objectives continue to be met.

Internal Audit would like to express our appreciation to the Office of the Controller and the Lottery Operations Division for their cooperation and assistance during this engagement. Their courtesy and responsiveness extended to Internal Audit allowed us to complete our work effectively and efficiently.

DETAILED REVIEW RESULTS

Jackpot estimations for Texas Two Step, Lotto Texas and Mega Millions are performed by the Office of the Controller and the Lottery Operations Division Products Department (Products). Both areas prepare their estimations independently based on their projections of anticipated sales, and then consult with each other to agree on a negotiated sales projection. The agreed-upon estimated sales projection results in a recommended advertised jackpot amount to be used in the event of a roll.

Internal Audit reviewed the process for estimating and advertising jackpots for Texas Two Step, Lotto Texas, and Mega Millions. At the time of our audit and for the period under review, Texas did not participate in the Powerball game. Accordingly, our audit did not examine Powerball jackpot estimations.

Overall, based on the results of our review and testing, jackpot estimations and the resulting advertised jackpot amounts are derived in accordance with agency policies and procedures. However, management should strengthen controls and improve current processes to ensure key objectives continue to be met.

The results of our review are presented below.

1 Jackpot Estimation Process

Jackpot estimations are prepared for Texas Two Step, Lotto Texas and Mega Millions twice per week for each game. For our scope period of Fiscal Years 2008 and 2009, there were 209 Texas Two Step jackpot estimations, 208 Lotto Texas jackpot estimations, and 208 Mega Millions jackpot estimations. Internal Audit selected a statistical sample of 62 Texas Two Step estimations, 60 Lotto Texas estimations and 60 Mega Millions estimations from Fiscal Years 2008 and 2009 (182 estimations total) and performed testing to determine compliance with requirements. In determining the attributes to test, Internal Audit reviewed agency procedures, game rules, and applicable statutes. Internal Audit did not test attributes which could not be confirmed. In addition, Internal Audit's review did not include verifying the reliability and integrity of the data from ProSys used to determine actual sales amounts. Our testing disclosed no exceptions. *Based on our testing, jackpot estimations are derived in accordance with written agency requirements.*

During our testing, Internal Audit did note opportunities to enhance controls to improve the process. The Office of the Controller uses a Jackpot Estimation Checklist during the estimation process for Texas Two Step, Lotto Texas, and Mega Millions. This checklist is used, "to verify that all prior information is correct and that all of the required steps have been completed".¹ The

¹ Procedure OC-JE-001, *Texas Two Step* Jackpot Estimation
Procedure OC-JE-002, *Lotto Texas*® Jackpot Estimation
Procedure OC-JE-003, Sales and Growth Estimation for *Mega Millions*®

checklist is a control to ensure that the jackpot estimations are prepared in accordance with agency procedures. The Office of the Controller initiated use of the checklist in July 2006.

Products' Sign-Off of Estimation Amounts

Recorded on the Jackpot Estimation Checklists for Texas Two Step and Lotto Texas are the estimated sales for the current draw; estimated total sales for the current roll cycle; projected total sales for the next drawing; and the estimated support for the jackpot prize for the next drawing. While the amounts recorded are intended to represent the agreed-upon negotiated amounts, there is no sign-off or evidence of agreement by Products. Although the checklist is primarily for the use of the Office of the Controller, evidence of Products' agreement enhances proper documentation of the negotiated number, providing confirmation that both parties approved the final negotiated number recommended and that controls are working as intended.

Jackpot Estimation Checklist Variances

While the original signed and approved Jackpot Estimation Worksheet is the official record of the estimation, the Office of the Controller also maintains working files for all of the jackpot estimations. The working files provide documented support for the signed Jackpot Estimation Worksheets. The Jackpot Estimation Checklist is included in these working files. The Jackpot Estimation Checklist serves as a useful, and ultimately effective, control for the Office of the Controller to verify prior information is correct and that required steps are completed. In our review of 182 estimations, we found in most instances the Jackpot Estimation Checklist was completed properly. However, some exceptions were noted. We found nine (9) instances in which the Jackpot Estimation Checklist information varied from the information on the Jackpot Estimation Worksheet, without documented explanation. For example, amounts documented in the Jackpot Estimation Checklist did not always agree to amounts on the final Jackpot Estimation Worksheet. In addition, two (2) instances were noted in which the Jackpot Estimation Checklist was signed subsequent to the Jackpot Estimation Worksheet.

Recommendation:

Internal Audit recommends the following:

1. Products document its agreement with the final negotiated number on the Jackpot Estimation Checklist.
2. The Office of the Controller document any deviation from the information shown on the Jackpot Estimation Checklist and any reason for the change.
3. The Office of the Controller ensure that the Checklist is reviewed in a timely manner.

Management Response:

1. *Management agrees with the recommendation. The Jackpot Estimation process has been modified to incorporate Products documentation of the final negotiated number on the Jackpot Estimation Checklist. The Jackpot Estimation procedures will be revised by July 31, 2010 to incorporate this process change.*

2. *Management agrees with the recommendation. The Office of the Controller has modified its process to ensure that any deviation from the information reflected on the completed checklist is documented. The Jackpot Estimation procedures will be revised by July 31, 2010 noting this requirement.*
3. *Management agrees with the recommendation. The Office of the Controller will ensure that the Checklist is reviewed in a timely manner.*

2 Accuracy of Sales Projections

In interview, responsible management indicated accuracy of the jackpot estimations is a key objective of the jackpot estimation process. The accuracy of sales projections is a key component in ensuring the advertisement of an accurate jackpot.

Internal Audit examined the accuracy of the sales projections for the period fiscal year 2008 through fiscal year 2009. We examined all sales projections in which there was a jackpot roll.

Both the Lotto Texas and Mega Millions advertised jackpots are annuitized amounts. Thus, the accuracy of these advertised amounts is based on two components – the projected sales estimate (sales projections) and the interest factor². For the Lotto Texas advertised jackpot, agency staff obtain the interest factor from the Texas Treasury Safekeeping Trust Company of the Comptroller of Public Accounts. The Virginia Lottery provides the interest factor used to advertise the Mega Millions jackpot. The interest factor is the factor for the date of the estimation, and accordingly may change on the date the investment is purchased in the event of a winning ticket.

However, since the interest factor is not estimated, Internal Audit focused its analysis on the accuracy of the sales projection. We reviewed all “next draw” sales projections in those instances in which the jackpot rolled and compared those to actual sales for that draw.

² Investment cost information is obtained from the Texas Treasury Safekeeping Trust Company for the Lotto Texas game and from the Virginia Lottery for the Mega Millions game. The interest factor is calculated by dividing the advertised jackpot by the estimated cost to fund an investment stream that would yield the total advertised jackpot over the annuity period.

The results are as follows:

Game	Number of Estimations in Which the Jackpot Rolled (FY 08 & 09)	Sales Estimate ^a < Actual Sales		Sales Estimate ^a > Actual Sales		Overall Average Variance From Estimate ^a
		Percentage of Occurrences	Average Variance	Percentage of Occurrences	Average Variance	
Texas Two Step	158	83.54%	-5.48%	16.46%	3.21%	-4.05%
Lotto Texas	194	61.86%	-3.30%	38.14%	1.98%	-1.29%
Mega Millions ^b	175	77.14%	-5.41%	22.86%	2.84%	-3.53%

^a Low end sales estimate. While sales is estimated as a range, the recommended advertised jackpot is based on the low end of the estimate. Per agency management request, we used the low end estimate in our review above.

^b Our analysis of Mega Millions sales estimates focused solely on projected sales in Texas.

We do note for the period we tested, Hurricane Ike occurred and its impact could not be anticipated. This event affected sales and, accordingly, the accuracy of sales projections during that time period.

While the accuracy of the estimation is an important objective, responsible management has not yet formalized a process to assess its efforts in this area. In discussion, responsible management indicated setting a tolerable variance for estimations may incur more risk than benefit. However, without an established target or tolerable variance, management must design alternatives to measure the adequacy and effectiveness of jackpot estimation efforts in order to monitor whether key objectives continue to be met.

Recommendation:

Internal Audit recommends the Office of the Controller and Products formalize ongoing review and assessment of estimation efforts. Such analysis should be used to help assess achievement of key objectives for the jackpot estimation process and used to determine whether modifications to the estimation models may be needed or whether the models are reliable and performing as intended.

Management Response:

Management agrees with the recommendation. The Office of the Controller and the Lottery Operations Products Department will formalize the current ongoing review and assessment of estimation efforts. A quarterly meeting will be held by the Lottery Operations Division and Office of the Controller to review the information. A procedure will be developed by July 31, 2010 to document the review process.

3 Advertisement of Jackpot Amounts

In addition to reviewing the estimations, Internal Audit also sought to assess whether the approved and appropriate jackpot amounts are advertised. We sought to verify that 1) the advertised amount was the properly approved amount to advertise, and 2) that the advertised amount did not exceed the documented “low end” sales estimate or was based on game procedures which require the advertised jackpot to advance in minimum set increments regardless of the estimated sales support.

In the case of the Mega Millions game, Internal Audit examined 1) whether Texas advertised the jackpot amount as approved by majority vote by the Mega Millions party lotteries, and 2) whether Texas’ vote regarding the jackpot amount to advertise was supported by the Mega Millions Finance Committee’s sales estimation.

a) Advertisement of an Approved Jackpot Amount

Once the jackpot estimations and resulting recommended advertised jackpots are prepared, reviewed and approved, they are advertised on the Texas Lottery Commission website, at the retailers’ terminals, and through various media outlets. The dissemination of jackpot amounts to advertise is done through an automatic e-mail to pertinent agency and vendor staff, an automatic update to the Texas Lottery Commission website, and information faxed to the Lottery Operator. Using our selected sample, we tested advertised jackpots to ensure the advertised jackpot was supported by a documented approval in accordance with agency procedures. Our testing disclosed no exceptions. *Based on our testing, advertised jackpot amounts were supported by documented approval in accordance with agency procedures for the period tested.*

b) Advertisement of a Supported Jackpot Amount

The advertisement of a “supported” jackpot amount means that the advertised jackpot amount does not exceed the sales estimate. Ensuring that the sales estimate supports the advertised jackpot amount is an important control to minimize the State’s risk and potential exposure. In the event of a winning Lotto Texas ticket, the agency pays the higher of actual sales or the advertised jackpot. Texas Two Step and Mega Millions jackpot winners are paid the advertised jackpot, regardless of actual sales.

The roll cycles³ for each of the three jackpot games start at an established advertised jackpot amount and, in the case of the Lotto Texas and Texas Two Step games, increase at set increments until the sales estimation supports a larger increase in the advertised jackpot amount. In the early stages of a roll cycle for Lotto Texas and Texas Two Step, sales typically do not support the advertised jackpot. However, respective game procedures require the advertised jackpot to advance in minimum set increments regardless of the estimated sales support.

³ A roll cycle is a series of drawings that ends when there is a drawing for which a ticket or tickets are sold that match the six (Lotto Texas and Mega Millions) or five (Texas Two Step) numbers drawn in the drawing.

Lotto Texas and Texas Two Step

For the Lotto Texas and Texas Two Step games, agency staff estimate sales as a range. Both a low end and a high end are projected. Per procedures⁴, the recommended jackpot amount to advertise in the event of a roll is typically based on the low end of the estimate. In these games, the agency's practice is to take a conservative approach to ensure that if estimated sales support a roll, the advertised jackpot does not exceed the "low end" estimated sales. As discussed earlier, if the sales estimate does not support a roll, the advertised jackpot must advance at a minimum set increment regardless.

Internal Audit tested advertised jackpots to ensure the advertised jackpots either 1) did not exceed the "low end" estimate as presented in the approved jackpot estimation worksheet or 2) were based on game procedures (if the "low end" sales estimate did not support a roll). Our testing disclosed no exceptions. *Based on our testing, the Lotto Texas and Texas Two Step advertised jackpots either 1) did not exceed the "low end" sales estimate as presented in the approved jackpot estimation worksheet, or 2) were based on game procedures which require the advertised jackpot to advance in minimum set increments regardless of the estimated sales support without exception.*

Additional Issue Regarding Lotto Texas

Internal Audit noted instances in our testing in which the Lotto Texas advertised jackpot was less than the "low end" estimated calculated support for the jackpot prize. In approximately early calendar 2007, the then-Executive Director communicated a Commissioner's request of setting a margin of \$100,000 or \$200,000 in low end sales support, so that in the event of projected sales being below that bar, management should advertise the next lowest million. For example, on February 28, 2009, the low end estimated calculated support for the jackpot prize was \$24,088,786, however, the advertised amount was \$23 million. At the time, concern regarding rapid and unpredictable interest rate decline existed, and a margin was thought to provide some buffer in the event of a significant decline in interest factor. As stated earlier in this report, agency staff do not estimate the interest factor. Rather, the interest factor is obtained on the date of estimation to project the annuitized value of the estimated sales, and is the interest factor for that day only. Hence, the actual interest factor used to purchase an annuity in the event of a winning ticket may differ. While a conservative approach in the advertisement of jackpots is prudent, an overly conservative approach may potentially result in missed sales revenue. Such a margin may be prudent under certain economic conditions; however, maintaining a margin as an ongoing practice without regard to the stability of the interest factor may not be warranted. In October 2009, the Deputy Executive Director rescinded this practice.

In discussion, responsible management indicated that while the interest factor is closely monitored, they did not anticipate ever basing the advertised jackpot amount on anything other than the estimated sales and the interest factor obtained on the date of estimation. Responsible management confirmed their intent to only estimate sales. Responsible management stated concerns regarding the potential risk of basing the advertised jackpot

⁴ Procedure OC-JE-001, *Texas Two Step* Jackpot Estimation and Procedure OC-JE-002, *Lotto Texas*® Jackpot Estimation

on an *estimated* interest factor. However, it is important to note that the potential for volatility of the interest factor should continue to be monitored as an unanticipated drop in the interest factor may have a significant negative fiscal impact in certain scenarios.

Mega Millions

In the case of the Mega Millions game, Texas is one of several member lotteries and accordingly cannot solely control the advertised jackpot amount. For each estimation, the Mega Millions Finance Committee first meets (via conference call) to project the total anticipated sales amount in the event of a roll. Each member lottery provides the estimated sales in their jurisdiction. Subsequent to the Finance Committee conference call, the Mega Millions lottery directors (or their designees) will then participate in a conference call to set the advertised jackpot amount. In various Commission meetings, the Commissioners have historically directed the Executive Director to vote conservatively - directing the Executive Director to only vote for an advertised jackpot amount that is supported by the Finance Committee's total projected sales amount. *This direction, however, has not been formalized in either rule or procedure.* For the period under review, management provided two instances in which Texas' vote regarding the jackpot amount to advertise was not supported by the Mega Millions Finance Committee's sales estimation. Both instances occurred in February 2008; we did not note any other instances in our sample. In one of the instances the sales deficit represented \$53,257, and in the second instance the deficit was \$540,922. On these dates, Texas voted to advertise jackpot amounts of \$122 million and \$150 million, respectively. We did note, however, Texas' vote was in line with the majority vote in those instances.

Based on our testing, Texas' vote regarding the Mega Millions jackpot amount to advertise was not always supported by the Mega Millions Finance Committee's sales estimation, but was in line with the majority vote.

Recommendation:

Internal Audit recommends the following:

1. Agency management should seek clarification whether it is this Commission's direction that the Executive Director only vote for a Mega Millions advertised jackpot amount that is supported by the Mega Millions Finance Committee's total projected sales amount. If such a requirement is the Commission's desire, controls should be instituted to ensure compliance, including amending procedures to include this requirement. Consideration should also be given to assessing whether such direction is "policy" and more appropriately included in agency rules.
2. Responsible management and staff should continue to closely monitor the potential for volatility of the interest factor and its resulting impact. An unanticipated drop in the interest factor may have a significant negative fiscal impact in certain scenarios.

Management Response:

1. *Management agrees with the recommendation. Agency management will obtain clarification whether it is the Commission's direction that the Executive Director only vote for a Mega Millions advertised jackpot amount that is supported by the Mega Millions Finance*

Committee's total projected sales amount. The Mega Millions jackpot estimation procedure will be revised by July 31, 2010 to incorporate any direction received by the Commission.

- 2. Management agrees with the recommendation. Management and staff will continue to closely monitor the potential for volatility of the interest factor.*

4 Publication of Lotto Texas Procedures

The Lotto Texas procedures have an additional requirement that Texas Two Step and Mega Millions procedures do not. Proposed Lotto Texas procedures must be approved by the three-member Commission after publication of the proposed policy or procedure in the Texas Register and on the agency's website and a public hearing. This requirement is a result of the agency implementing recommendations resulting from the State Auditor's Office (SAO) audits of the agency. At the request of agency management, Internal Audit examined the agency's implementation of those recommendations.

In July 2006 and again in February 2008, the State Auditor's Office recommended proposed policies and procedures that affect Lotto Texas players be adequately communicated to the public and the public be given an opportunity to propose changes or make comments prior to approval by the Commissioners.⁵ At the time of the State Auditor's recommendations, agency management had not defined what constitutes a change that impacts the player. In addition, the desk procedures have not been separated from the procedures that do have an impact on the player. Without a distinction between content which impacts players and that which does not, the agency has adopted an overly broad and conservative approach in implementing the State Auditor's recommendations by publishing the full content of all procedures which directly relate to Lotto Texas. This has resulted in unnecessary and unintended inefficiency and delay in responsiveness to needed administrative changes.

Recommendation:

Internal Audit recommends agency management first develop criteria and guidelines to define the specific Lotto Texas policies and procedures which impact players. After this distinction is made, agency management should then separate Lotto Texas desk procedures and other administrative policies and procedures, from policies and procedures that affect the player. Only those policies and procedures (and any subsequent changes) which meet the established criteria and guidelines should be required to be approved by the three-member Commission after publication (in the Texas Register and on the agency's website) for public comment, and subsequently made available to the public through the Texas Register and on the agency's website.

⁵ An Audit Report on Lotto Texas Activities at the Texas Lottery Commission, July 2006, Report No. 06-046.
A Follow-up Audit Report on Workforce Management, Procurement, and Lotto Texas Activities at the Texas Lottery Commission, February 2008, Report No. 08-022.

Management Response:

Management agrees with the recommendation. Agency management will develop criteria and guidelines to define the specific Lotto Texas policies and procedures that impact players. The current Lotto Texas procedures will be segregated by those procedures that impact players from desk procedures. Lotto Texas policies and procedures that impact the player will continue to be presented for approval by the Commission including the required steps necessary to obtain public comment and posting the approved procedure in the Texas Register and on the agency's website. Revised Lotto Texas policies and procedures requiring Commissioner consideration will be presented to the Commission by August 31, 2010.

BACKGROUND

The Texas Lottery Commission (TLC) offers on-line games with rolling jackpots. Drawings are conducted for these games twice per week, necessitating biweekly jackpot estimations for each game. Estimations of anticipated sales are performed to set the jackpot amount to be advertised for each game’s drawing. At the time of our audit and for the period under review, three such games were offered in Texas - Texas Two Step, Lotto Texas and Mega Millions. Texas had not yet elected to participate in the Powerball game.

Jackpot estimations for Texas Two Step, Lotto Texas and Mega Millions are performed by the Office of the Controller and the Lottery Operations Division Products Department (Products). Both areas prepare their estimations independently based on their projections of anticipated sales, and then consult with each other to agree on a negotiated sales projection. The agreed-upon estimated sales projection results in a recommended advertised jackpot amount to be used in the event of a roll.

Estimations are prepared on the following days:

MON	TUE	WED	THU	FRI
				

All estimations are made on the day of the drawing for each specific game with the exception of the Friday Lotto Texas estimation which is made the day prior to the Saturday drawing.

The estimation process is important to ensure that the advertised jackpot amounts are as accurate as possible, the proper jackpot amount is advertised, and management’s key objectives are met.

The key objectives of the jackpot estimation process as expressed by responsible management include:

- *To make sure we are advertising the most accurate jackpot to our players to the best of our ability.*
- *To limit liability to the agency and limit negative revenue impact.*
- *To determine the most accurate, fully funded, jackpot amount that can be supported by sales that we should advertise.*
- *To ensure that the advertised jackpot is accurate. The accuracy of the estimation goes to the integrity of the game.*
- *To give accurate data to all concerned parties.*

AUDIT PURPOSE, SCOPE AND METHODOLOGY

Purpose:

Internal Audit completed a review of Jackpot Estimation Procedures, as specified in the approved Fiscal Year 2009 Internal Audit Activity Plan. The purpose of the audit was to verify that jackpot estimations, and the resulting advertised amounts, are derived in accordance with agency policies and procedures. In addition, we sought to assess relevant controls to ensure key objectives are met.

Scope:

Internal Audit reviewed jackpot estimations performed in Fiscal Years 2008 and 2009 for Texas Two Step, Lotto Texas and Mega Millions. This audit did not include a review of Powerball jackpot estimations as Texas did not participate in the Powerball game during the period under review.

Methodology:

In accomplishing our objective, Internal Audit reviewed the procedures and observed the estimation process for each game. Internal Audit also selected a statistical sample of jackpot estimations for Texas Two Step, Lotto Texas and Mega Millions from Fiscal Years 2008 and 2009 for testing. Internal Audit performed testing on various attributes related to requirements in the procedures.

Internal Audit interviewed responsible management and staff, examined and reviewed supporting documentation and electronic files, and performed selected test work as deemed necessary. Internal Audit's review did not include verifying the reliability and integrity of data from PROSYS. We relied upon other independent audit work as relevant and appropriate.

Auditor's Consideration of Fraud:

In accordance with our professional standards, Internal Audit considered risks due to fraud that could significantly affect our audit objectives and the results of our audit. Accordingly, we designed our procedures to provide reasonable assurance of detecting fraud significant to the audit objectives. During the course of the audit, we were also alert to situations or transactions that could be indicative of fraud. We conducted our audit to provide reasonable assurance of detecting illegal acts or fraud that could significantly affect the audit results; however, it does not guarantee the discovery of illegal acts or fraud.

Professional Standards:

Internal Audit conducted this performance audit in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors (IIA) in conjunction with generally accepted government auditing standards

(GAGAS) as promulgated by the U.S. Government Accountability Office (GAO). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Team

The following member of the Internal Audit Division performed this audit:

- Dale Hernandez, CIA, CGAP, CCSA, CFE (Project Manager)

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STATE OF TEXAS
TEXAS LOTTERY COMMISSION

INTERNAL AUDIT DIVISION

An Internal Audit of
JACKPOT ESTIMATION

IA #10-003

May 2010

This report has been provided to the following:

Ms. Mary Ann Williamson, Chair
Mr. David J. Schenck, Commissioner
Mr. J. Winston Krause, Commissioner

Mr. Gary Grief, Executive Director
Mr. Philip D. Sanderson, Charitable Bingo Operations Director

This report is also provided to the following for appropriate distribution in accordance with
Government Code §2102.009:

Ms. Mary Katherine Stout, Director, Governor's Office of Budget, Planning and Policy
Mr. John O'Brien, Director, Legislative Budget Board
Mr. Ken Levine, Interim Director, Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor