



# TEXAS LOTTERY COMMISSION FY 2019 ANNUAL INTERNAL AUDIT PLAN



As Prepared by  
McConnell & Jones LLP



**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS



## Table of Contents

Section	Page Number
1.0 Compliance with Texas Government Code, Section 2102.015: Posting the Audit Plan and Annual Report on the Internet .....	2
2.0 Purpose .....	2
3.0 Risk Assessment .....	2
5.0 FY2018 Annual Audit Plan .....	4
6.0 Significant Interim Changes .....	5





McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

August 9, 2019

The Honorable Greg Abbott, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the FY 2019 Internal Audit Plan for the Texas Lottery Commission (TLC) approved by TLC's Commissioners on August 9, 2018. The annual audit plan will enable the TLC to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. McConnell & Jones LLP (MJ) will execute this annual audit plan in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Darlene Brown at 713.968.1617 or Commissioner J. Winston Krause at 512.477.6707 if you should have any questions about this audit plan.

Sincerely,

Ira Wayne McConnell, CPA  
Partner

7600 Chevy Chase Drive  
Suite 307  
Austin, TX 78752  
Phone: 512.430.5358

WWW.MCCONNELLJONES.COM



## **1.0 COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET**

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, MJ will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Lottery Commission's (TLC) Executive Director who will ensure the information is posted to the TLC's website.

## **2.0 PURPOSE**

The purpose of this report is to communicate the annual risk-based audit plan as approved by the Texas Lottery Commission Commissioners on August 9, 2018, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan, and the communication of audit results and any significant interim changes to the annual audit plan.

The annual audit plan was developed based on a prioritization of the audit universe, updating the prior years' risk assessment, input from the TLC leadership team and Commissioners and guidance provided by the State Auditor's Office (SAO). Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk rating.

## **3.0 RISK ASSESSMENT**

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of the TLC leadership team and Commissioners. Our assessment evaluated risk exposures relating to the TLC's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, policies and procedures, and contracts.



The types of risk exposure relevant to the TLC are:

- *Financial Exposure:* Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure:* Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
  - Recent changes in key personnel
  - Changing economic conditions
  - Time elapsed since last audit
  - Pressures on management to meet objectives
  - Past audit findings and quality of internal control
- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure:* A reputational exposures exists whenever an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

MJ discussed the risk exposures with the TLC Commissioners and leadership team. We then updated the annual audit plan based upon current risks facing TLC operations.



## 5.0 FY2019 ANNUAL AUDIT PLAN

MJ will conduct seven scheduled audits, prepare a white paper on the lottery operator contract risks and controls, provide assistance to the Charitable Bingo Operations Division, update the risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2020 Annual Internal Audit Plan and prepare the fiscal year 2019 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,136 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

### Fiscal Year 2019 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Copy Center Controls and Monitoring Process <ul style="list-style-type: none"> <li>✓ Contract compliance monitoring process</li> <li>✓ Data security</li> <li>✓ Physical security</li> </ul>	Medium	September 2018	67
2	Centralize Audit Report Findings and Monitoring <ul style="list-style-type: none"> <li>✓ Collaborate with Information Resources to modify current audit tracking database</li> <li>✓ Develop policy and procedure for internal and external audit report submission and tracking</li> <li>✓ Upload all current audit reports and findings status into central database</li> </ul>	Low	October 2018	48
3	HB2578 Implementation <ul style="list-style-type: none"> <li>✓ Prize fee allocation issuance</li> <li>✓ Prize fee allocation calculations</li> <li>✓ Administrative cost calculations</li> <li>✓ Prior license fee revenue calculation</li> <li>✓ Refund calculation and issuance</li> <li>✓ Fund recording</li> </ul>	High	November 2018	137
4	Game Changes <ul style="list-style-type: none"> <li>✓ Implementation of rule changes</li> <li>✓ Accounting updates</li> <li>✓ Procedure updates</li> <li>✓ Game matrix updates (if applicable)</li> <li>✓ Internal systems updates</li> <li>✓ Retailer training</li> </ul>	High	November 2018 (Current Changes) April 2019 (Anticipated Changes)	241
5	Drawings Studio <ul style="list-style-type: none"> <li>✓ Process improvement opportunities</li> <li>✓ Auditor processes</li> </ul>	High	December 2018 – January 2019	241
6	Cyber Security Program <ul style="list-style-type: none"> <li>✓ Cyber security plan and policies</li> <li>✓ Cyber security monitoring tools and processes</li> <li>✓ Patch management</li> <li>✓ Monitoring activities</li> <li>✓ Incident response plan</li> </ul>	High	January 2019 – February 2019	281



Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
7	Retailer Incentive Program ✓ Policies ✓ Calculations	Low	February 2019	101
8	Lottery Operations Customer Service ✓ Call center processes ✓ Complaint management, reporting and resolution processes ✓ Claim center customer service processes	Medium	March – April 2019	281
9	Bingo Follow-Up Activities ✓ Paper-work reduction ✓ Audit processes ✓ Desk review processes ✓ Process reviews ✓ Education program	High	On-Going	380
10	Information System User Access ✓ Monitor access rights to TLC's network and information systems	High	On-Going	45
11	Follow-Up on Prior Audit Findings	Compliance	On-Going	165
12	Monitor Fraud/Complaint Hotline	Compliance	On-Going	8
13	External Audit / Review Assistance	N/A	On-Going	8
14	Update Risk Assessment & Annual Audit Plan	Compliance	July 2018	69
15	Annual Internal Audit Report	Compliance	August 2018	9
16	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	55
	<b>Total</b>			<b>2,136</b>

*Proposed audits will focus on internal controls and business processes*

## 6.0 SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TLC executive management and present these changes to the TLC's Commissioners for review and approval. Notification of significant changes to the internal audit plan approved by the Commissioners will be submitted to the State Auditor's Office.

This annual audit plan was presented to the Commissioners and approved on August 9, 2018.

---

J. Winston Krause, Chairman



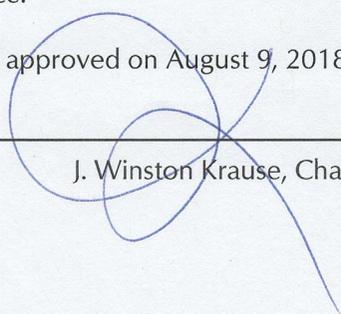
Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
7	Retailer Incentive Program ✓ Policies ✓ Calculations	Low	February 2019	101
8	Lottery Operations Customer Service ✓ Call center processes ✓ Complaint management, reporting and resolution processes ✓ Claim center customer service processes	Medium	March - April 2019	281
9	Bingo Follow-Up Activities ✓ Paper-work reduction ✓ Audit processes ✓ Desk review processes ✓ Process reviews ✓ Education program	High	On-Going	380
10	Information System User Access ✓ Monitor access rights to TLC's network and information systems	High	On-Going	45
11	Follow-Up on Prior Audit Findings	Compliance	On-Going	165
12	Monitor Fraud/Complaint Hotline	Compliance	On-Going	8
13	External Audit / Review Assistance	N/A	On-Going	8
14	Update Risk Assessment & Annual Audit Plan	Compliance	July 2018	69
15	Annual Internal Audit Report	Compliance	August 2018	9
16	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	55
	<b>Total</b>			<b>2,136</b>

Proposed audits will focus on internal controls and business processes

### 6.0 SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TLC executive management and present these changes to the TLC's Commissioners for review and approval. Notification of significant changes to the internal audit plan approved by the Commissioners will be submitted to the State Auditor's Office.

This annual audit plan was presented to the Commissioners and approved on August 9, 2018.

  
 \_\_\_\_\_  
 J. Winston Krause, Chairman