



**Texas Lottery Commission
Internal Audit Services**

**FY 2020
Annual Internal Audit Plan**



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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August 7, 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 2020 Internal Audit Plan for the Texas Lottery Commission (TLC) approved by TLC's Commissioners on August 7, 2019. The Annual Internal 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 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 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 TLC's Commissioners on August 7, 2019, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan.

The Annual Internal Audit Plan was developed based on a prioritization of the audit universe, updating the prior years' risk assessment, input from the TLC leadership team, 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 exposure 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's leadership team. We then updated the Annual Internal Audit Plan based upon current risks facing TLC operations.



5.0 FY 2020 ANNUAL AUDIT PLAN

MJ will conduct nine scheduled audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the FY 2021 Annual Internal Audit Plan and prepare the FY 2020 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,421 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

FY 2020 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Background Investigations	High	September 2019 - October 2019	225
2	Bingo Enforcement Order Processes	High	November 2019 - January 2020	230
3	Bingo Implementation of HB 914	High	January 2020 - February 2020	321
4	Records Retention	Medium	March 2020 - April 2020	305
5	Agency Travel and Expense	Low	April 2020 - May 2020	265
6	Claim Center and Ticket Validations	High	May 2020 - June 2020	201
7	Review of TLC Monitoring and Testing of Lottery Vendor Software Changes Activities	High	June 2020 - July 2020	181
8	TLC Warehouse and Receiving	Low	June 2020 - July 2020	233
9	Ticket Return and Destruction Controls	High	Jul-20	145
10	Information System User Access	High	On-Going	65
11	Follow-Up on Prior Audit Findings	Compliance	On-Going	77
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 2019	97
15	Annual Internal Audit Report	Compliance	August 2019	7
16	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	53
	Total Hours			2,421
	Total Fees			\$299,819

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 7, 2019.