TEXAS LOTTERY COMMISSION

An Internal Audit of Scratch Ticket Working Paper Workflow System Internal Controls

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Report #17-010

MJ McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

Introduction

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission (TLC) performed an internal audit of scratch ticket working paper workflow system (SWAP) internal controls. We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). 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 observations and conclusions based on our audit objectives.

Pertinent information has not been omitted. This report summarizes the audit scope, our assessment based on our audit objectives and the audit approach.

Objectives and Scope

TLC is responsible for creating new scratch ticket games that interest players and generate revenues for the state of Texas. This process involves working with designated scratch ticket printing vendors. The scratch ticket creation, review and approval is documented through working papers. Scratch ticket working papers were reviewed and approved on hard copy paper files until September 1, 2016. TLC's staff designed a workflow system to automate the scratch ticket working paper review and approval process. This system is named Scratch Workflow Automation Program (SWAP).

We completed the audit of the SWAP to ensure that the appropriate internal controls were integrated into the agency's newly designed and implemented system. These internal controls are important to ensure that:

✔ Only authorized individuals have access to the system.

✔ Scratch ticket working papers are reviewed according to TLC policies.

✔ The workflow system does not allow scratch ticking working papers to be authorized and released to the vendor for printing until all required reviews are completed and finalized.

✔ The agency has a method to retain the scratch ticket working papers according to applicable records retention schedules.

We evaluated internal controls and business processes related to the SWAP for the period of September 1, 2016 through June 30, 2017. Some test procedures were performed as of fieldwork date. This work product was a point-in-time evaluation that cannot address the inherent dynamic nature of subsequent changes to the process/procedures reviewed.

Results and Conclusions

Internal Audit categorizes audit findings as Effective, Some Improvement Needed, Major

Improvement Needed, Unsatisfactory and Best Practices.

Based on the audit results, we determined that controls over the scratch ticket working paper workflow are effective and working as intended to achieve the business objectives. We also concluded that the internal control environment is enhanced with the implementation of the SWAP system.

TLC's processes for preparing, reviewing and authorizing scratch ticket working papers are best practices that could be replicated by other state lotteries.

Rating	Description of Ratings
Best Practices	**Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.**
Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally, however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Acknowledgement

We wish to thank all staff involved in this audit for their professionalism and positive outlook towards the assessment of their business processes. The timely completion of this audit was due to their efforts, responsiveness to our requests and maintenance of documentation in electronic format.

Scratch Ticket Working Paper Workflow System

A set of scratch ticket working papers is a document that is prepared by the designated scratch ticket printing vendor. The working papers show specific information for each scratch ticket game to be produced, including:

✔ Ticket quantity;

✔ Ticket size;

✔ Artwork;

✔ Imaging layout, symbols, ink colors;

✔ Prize structure;

✔ Play instructions;

✔ Programming parameters; and

✔ Pricing.

TLC's management team and staff worked with their Information Resources team to develop an in-house system (SWAP) to facilitate, monitor and document the scratch ticket working paper processes. SWAP was designed to allow authorized internal and external users to review working papers from creation by the scratch ticket vendor through final approval by the executive director. SWAP incorporated the Lottery Operations Products Department's scratch ticket working paper workflow and the ability to review all comments by review team members and notify team members when an action is needed. It also incorporated the ability to review all comments made by the scratch ticket vendor and notify the scratch ticket vendor when an action is needed.

Having the ability to electronically review and track the scratch ticket working papers is the primary benefit of the SWAP. Prior to SWAP, TLC's scratch ticket working paper processes were manual and dependent upon paper documents, email and physical authorization routed throughout the agency.

Each scratch ticket game begins with TLC staff working with designated scratch ticket printing vendors to create the ticket's artwork, playstyle, prize structure and programming parameters. This process is performed through email, telephone and office visits.

The designated scratch ticket printing vendor uploads a draft set of working papers to SWAP once the artwork and prize structure is approved. This then begins the TLC review, edit and approval process. Once all the reviews and edits have been completed, the working papers are digitally signed by TLC and the designated vendor. The vendor marks the final working papers "Executed" along with their signature. These final/executed working papers then become the agreement between the TLC and the contracted scratch ticket printer for the scratch ticket game. **Figure 1** provides an example of a scratch ticket working paper cover page.

Figure 1: Scratch Ticket Working Paper Cover Sheet Example

Scratch ticket working papers undergo a series of internal reviews and edits before they are released for printing. These reviews begin with the assigned scratch ticket specialist working with the scratch ticket vendor on initial edits. Once the vendor makes the initial edits, designated TLC staff reviews the working papers in SWAP and submits comments and/or edits. The agency's written procedures document 12 review steps in the draft working paper process and 11 additional review steps for the final working papers. An internal review committee reviews both the draft working papers and the final working papers. The review committee consists of representatives from the following TLC divisions/departments:

✓ Media Relations

✓ Governmental Affairs

✓ Legal Services

✓ Validations

✓ Retailer Services

✓ Lottery Operations Security

✓ Products

Each of these steps can result in edits and working with the respective vendor to make the edits. Prior to SWAP, each of these steps and reviews were performed through email and hard copy files.

The number of scratch ticket games introduced each fiscal year has increased to 84 in FY2017 from 68 in FY2014. The number of scratch ticket games that are introduced means that at least one scratch ticket game is in various stages of review and edits each week. **Figure 2** provides the number of scratch ticket games introduced by year from FY2014 through FY2017.
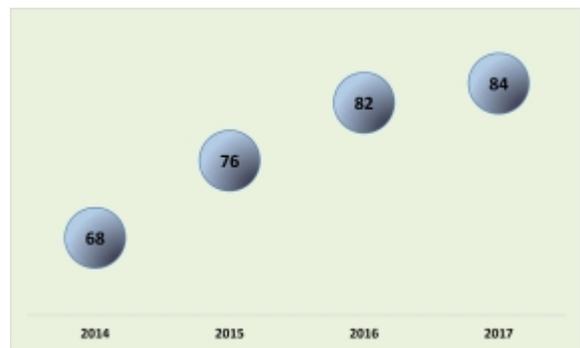

Figure 2: Texas Lottery Scratch Ticket Game Introductions by Year FY2014 – FY2017

Managing this volume of scratch ticket game introductions requires sound processes, coordination and controls to ensure that scratch ticket games are released on-time and without errors.

SWAP has made the scratch ticket review and approval process more efficient and effective with the following features.

✓ Remote access for executive-level review and approval.

✓ Tracking scratch ticket working papers from creation by a scratch ticket vendor through its final approval.

✓ Electronic work flow for commenting and approving working papers.

✓ Electronic notifications of comments and actions needed are sent to designated individuals through automatic emails.

✓ Electronic signatures are captured on the working papers.

✓ SWAP access provided to TLC scratch ticket vendors.

✓ Final working papers are saved to the agency's electronic Document Repository for storage until records retention requirement has been met.

✓ Access is restricted to authorized system users.

✓ Internal programmers are available to monitor and support the system.

Scratch Ticket Working Paper System Business Risks and Audit Results

This section of the report provides a summary of the SWAP system's primary business risks, TLC's internal controls in place and the respective internal control ratings. TLC established internal controls in the form of policies, procedures, management review and monitoring processes. These internal controls are effective and working as intended.

BUSINESS OBJECTIVE 1: Scratch Ticket Working Paper Policies and Procedures	
Business Objective	Ensure that TLC's scratch ticket working paper workflow system maintains the workflow status and results for the scratch ticket working paper review and authorization in accordance with the agency's policies and procedures.
Business Risk	Scratch ticket working papers are not reviewed and authorized in accordance with policies and procedures.
Management Controls	➲ Detailed written procedures exist and are reviewed on a regular basis.
Control Tests	➲ Conducted interviews. ➲ Performed audit testing. ➲ Reviewed SWAP policies and procedures.
Control Assessment	Written procedures include detailed instructions for the scratch ticket working paper review and approval processes. Scratch ticket working paper review and approvals complied with written procedures.
Recommended Actions	None
Management Action Plan	N/A

BUSINESS OBJECTIVE 2: Scratch Ticket Working Paper Review	
Business Objective	To ensure that all scratch ticket working papers are reviewed for content accuracy and legal requirements compliance.
Business Risk	➲ Scratch tickets are printed and released with errors that result in reputational damage or financial loss to the state of Texas. ➲ Scratch tickets are printed without the required legal language.
Management Controls	➲ Scratch ticket working papers are reviewed in SWAP by TLC's Legal Services staff. Comments and edits are also tracked in SWAP. ➲ Scratch ticket working papers are reviewed in SWAP by designated scratch ticket specialists, coordinators and the Products manager and Lottery

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BUSINESS OBJECTIVE 2: Scratch Ticket Working Paper Review

	Operations director prior to final approval. SWAP indicates the review status. Comments and edits are also tracked in SWAP. ⮑ Scratch ticket working papers are reviewed at least two times in SWAP by an internal review committee comprised of representatives from key divisions. Comments and edits are also tracked in SWAP. ⮑ The designated scratch ticket specialist and the internal review committee review the final working papers to ensure that edits were appropriately addressed by the vendor prior to final authorization.
Control Tests	⮑ Conducted interviews. ⮑ Reviewed policy and procedures. ⮑ Reviewed SWAP software requirements document. ⮑ Performed audit testing.
Control Assessment	Scratch ticket working papers were reviewed according to written policies.
Recommended Actions	None
Management Action Plan	None Required

BUSINESS OBJECTIVE 3: Scratch Ticket Working Paper Approval

Business Objective	To ensure all scratch ticket working papers are authorized according to TLC policies prior to being released for printing.
Business Risk	⮑ Unauthorized scratch tickets could be printed.
Management Controls	⮑ Scratch ticket working papers are required to be electronically approved by five different designated TLC individuals prior to being authorized by the executive director (or designee). ⮑ The designated scratch ticket vendor signs the final working papers and uploads the executed copy to SWAP. ⮑ All authorizations are electronically captured in SWAP. ⮑ Scratch ticket working papers can be digitally signed by designated individuals through a mobile application.
Control Tests	⮑ Conducted interviews. ⮑ Reviewed written policies. ⮑ Reviewed SWAP software requirements document. ⮑ Performed audit testing.
Control Assessment	Scratch ticket working paper approvals are obtained and captured electronically prior to being released for printing.

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BUSINESS OBJECTIVE 3: Scratch Ticket Working Paper Approval

Recommended Actions	None
Management Action Plan	None required.

BUSINESS OBJECTIVE 4: Scratch Ticket Working Paper Retention

Business Objective	To ensure scratch ticket working papers are retained according to established records retention policies.
Business Risk	➲ Scratch ticket working papers are not available for reference when needed. ➲ Scratch ticket working papers are not retained according to records retention requirements.
Management Controls	➲ SWAP contains a Working Paper Type column to identify the working papers as final. ➲ A TLC scratch ticket specialist copies the final working papers from SWAP to the agency's electronic document repository system.
Control Tests	➲ Conducted interviews. ➲ Performed audit testing.
Control Assessment	Scratch ticket working papers were available on the agency's document repository system.
Recommended Actions	None
Management Action Plan	N/A

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