



Texas Lottery Commission Internal Audit

An Internal Audit of

Texas Lottery Commission's Social Responsibility Programs

August 31, 2018

Report #18-003

Prepared by:



This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.



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 TLC's social responsibility program (CSR). 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, objectives and our assessment of TLC's internal controls for the agency's social responsibility initiatives.

Objectives and Scope

Social responsibility in business pertains to people and organizations behaving and conducting business ethically with sensitivity towards social, economic, and environmental issues. Including stakeholders into consideration to ensure the betterment of the community is a top priority to TLC and its staff.

It is important that TLC's social responsibility program is designed to achieve the agency's business objectives while complying with statutory requirements. Accordingly, we

focused this audit on assessing TLC's processes and controls in place to:

- ✓ Ensure that TLC's hiring and employment practices do not violate race, gender and age discrimination requirements.
- ✓ Ensure that TLC focuses on positive and safe gambling experiences for players.
- ✓ Ensure that TLC complies with responsible gambling regulatory and industry requirements.
- ✓ Ensure that the agency's environmental program complies with applicable regulatory requirements.
- ✓ Ensure that the agency's charitable programs that include the collection and distribution of money or goods are authorized.

We evaluated internal controls and business processes related to the social responsibility initiatives for the period of September 1, 2017 through March 1, 2018. 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

TLC's processes and controls over their social responsibility initiatives are best practices that could be replicated by other state lotteries. This audit did not result in any reportable findings.

Figure 1 describes the internal control rating.

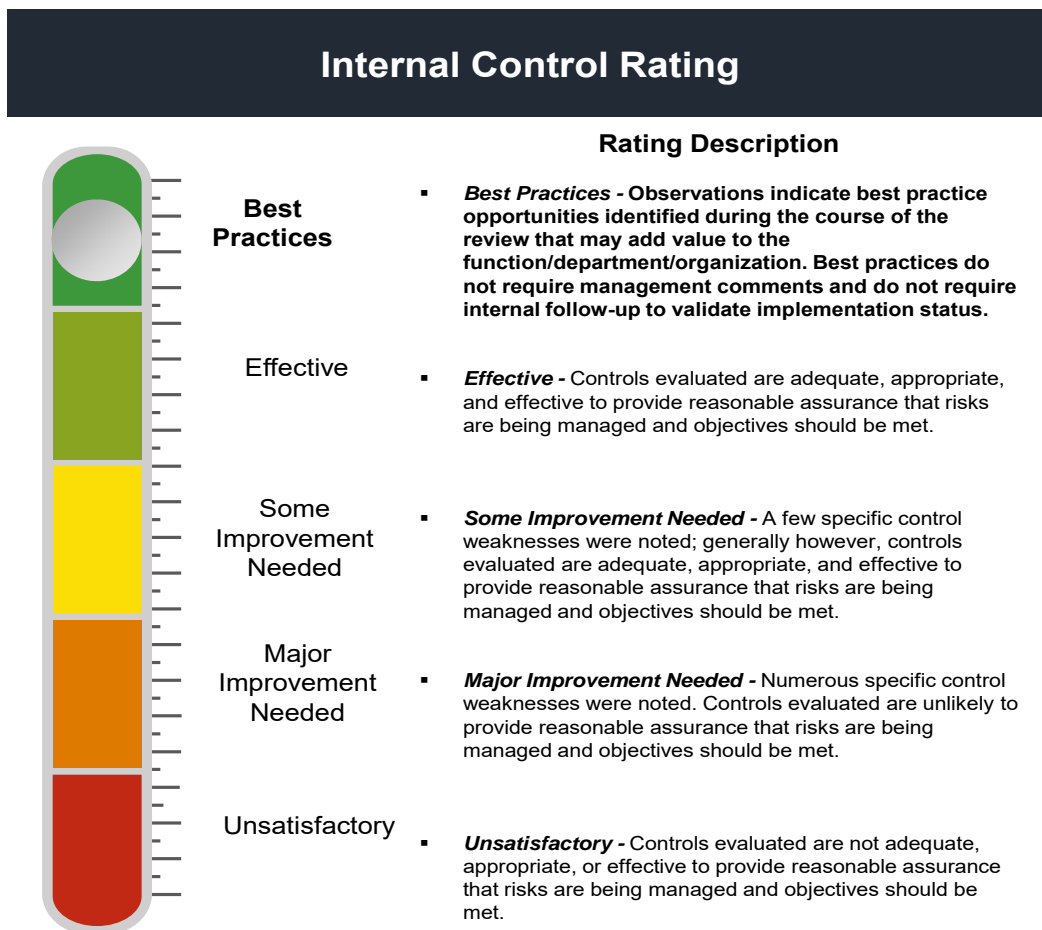


Figure 1 Internal control description.

Acknowledgement

We wish to thank all staff involved in this audit for their professionalism and positive outlook

towards the assessment of their business processes.

BACKGROUND

Corporate social responsibility is becoming increasingly more important to stakeholders, consumers and employees. Stakeholders, legislators, activists and media are holding organizations accountable for the social consequences of business decisions and actions. An organization's CSR actions can

lead to positive outcomes when what they stand for and their actions are aligned to the public and stakeholders' beliefs. Conversely, an organization can be negatively impacted if the public disagrees with actions taken or communicated. There have been several instances recently where organizations have



faced tremendous decline in revenues and valuation due to perceived CSR actions. Nike, Target and Starbucks are a few of these organizations.

CSR can encompass a multitude of areas which can be categorized into the following:

1. Moral obligation – organizations have a duty to do the right thing and be good citizens. This includes ethical values and respect to people, communities and the environment.
2. Sustainability – actions taken towards positive environmental and community stewardship.
3. License to operate – approval from government, communities and stakeholders to conduct business.
4. Reputation – sustaining, improving and strengthening the organization's brand and employee morale.

Moral obligations are the primary driver of an organization's CSR success or failure.

TLC's CSR Initiatives

TLC's mission is to generate revenue for the state through the responsible management and sale of entertaining lottery products. By nature, this places TLC into an environment where the organization faces intense scrutiny for their actions. Although TLC is a state agency that is bound to statutory regulations and legislative oversight, the public generally does not know this and views lottery in the same manner as a public company that operates legal gambling.

The Texas Lottery Commission was employing CSR principles before CSR was a topic of discussion. This is demonstrated through their core values of:

- ✓ Integrity and Responsibility

- ✓ Innovation
- ✓ Fiscal Accountability
- ✓ Customer Responsiveness
- ✓ Teamwork
- ✓ Excellence

TLC adheres to Equal Employment Opportunity Commission (EEOC) requirements which is one aspect of social responsibility. Additionally, some of TLC's more prominent CSR actions are through:

TLC's CSR program includes:

- ✓ Vendor and licensee compliance activities.
- ✓ Consumer protection activities.
- ✓ Hotline support.
- ✓ Retailer surveys.
- ✓ Retailer inspections.
- ✓ Investigation of complaints received.
- ✓ Supervision and monitoring of lottery drawings and ticket validations.
- ✓ Responsible management and sale of entertaining products. These actions are commonly referred to as responsible gaming.
- ✓ Developing entertaining games for the public to play which leads to revenues for the Foundation School Fund and the Texas Veterans Commission.
- ✓ Transferring up to \$20 million of unclaimed prize funds to the Department of State Health Services state-owned multicategorical teaching hospital account to provide indigent health care services as specified in Chapter 61, Health and Safety Code. This transfer is made each year according to statutory requirements.
- ✓ Transferring up to \$5 million of unclaimed prize funds attributable to games designed for veterans' assistance to the Fund for Veterans' Assistance. This transfer is made each year according to statutory requirements.



- ✓ Implementing an energy conservation program for their headquarters, drawings studio and claims centers with continuous efforts to decrease energy consumption.
- ✓ Participating in the state's recycling program.
- ✓ Encouraging staff to participate in the state's annual charity campaign; coordinating charitable drives for the Salvation Army; and participating in blood drives.

Responsible Gambling

Responsible gambling is at the heart of the agency's commitment to providing its products to the public in a responsible manner. Information and education regarding playing the games responsibly has always been, and continues to be, a critical focus area for TLC staff and sales representatives. This is consistent with the State Lottery Act.

TLC incorporates the highest standard of security, integrity and responsible gaming principles into all of their business decisions. "Integrity and Responsibility" is a core value of TLC. This incorporates educating retailers, staff and the public about the responsible game playing, including identifying the signs of problem gambling and the resources available for help.

While the state legislature does not allocate any funds to the agency's responsible gaming initiative, TLC's Lottery Operations, Administration, and Media Relations staff dedicate a significant amount of time to various responsible gaming initiatives and activities which include:

- ✓ World Lottery Association (WLA) Certification
- ✓ National Council on Problem Gambling Membership (NCPG) – North American

Association of State and Provincial Lotteries (NASPL) Responsible Gambling Program Verification

- ✓ Implementation of Responsible Gambling Initiatives
- ✓ TLC and Vendor Employee Required Responsible Gambling Training
- ✓ Statewide Retailer Trainings
- ✓ Customer-Contact Employee Supplemental Trainings with TLC, IGT and Latinworks
- ✓ Social Media Posts

Additionally, TLC's lottery operator, IGT, provides corporate CSR training to their staff. TLC understands that the majority of lottery players enjoy the games for pleasure and a chance to win, while for some people gambling can become a problem. Therefore, the agency continues to bring awareness to its statewide play responsibly campaign through various communications including, website, retail point-of-sale materials, inclusion in advertising and social media. **Figure 2** provides a snapshot of the play responsibly video on TLC's Facebook page.



Figure 2 TLC's Facebook play responsibly video.



State Employee Charitable Campaign (SECC)

Texas' State Employee Charitable Campaign (SECC) is one of the largest state employee campaigns in the nation. TLC has participated in this charity campaign since 1994; allowing its employees to contribute by one-time payment or more commonly, payroll deductions. The annual charity campaign begins on September 1st and concludes on October 31st.

TLC staff have demonstrated a willingness to contribute to the public in other ways through individual and group activities during non-work hours.

Salvation Army Donation Angel Tree Program

The Salvation Army helps over 8,000 children in the greater Austin area each year. TLC employees contribute to the annual Salvation Army Angel Tree Program by purchasing gifts for sponsored children. Since 2006, TLC has

adopted over 1,250 children and provided holiday gifts which consist of clothing, books and toys. TLC has been able to meet or exceed their goal of sponsoring 100 children each year. TLC's Human Resources staff plays an intricate role by working with the Texas Lottery Commission's Employee Charitable Activity Committee to promote the program's annual campaign throughout the agency and ensure that all identified children are sponsored by staff.

Blood Drive/Donations

TLC partners with a local blood donation center "We are Blood" which aids the community in reaching its daily goal of acquiring blood for those in need. Human Resources staff organize each blood drive/donation by promoting the blood drive and signing up at least eighteen volunteers each quarter. TLC has participated in volunteer blood donations for over eighteen years and contributed to over twelve hundred donations.

DETAILED AUDIT OBJECTIVES, OPPORTUNITIES AND RECOMMENDATIONS

This section of our report provides the detailed audit objectives and a discussion of the controls and processes in place along with

our control effectiveness conclusion and recommendations. It is important to note that we found no reportable conditions.

Audit Objective #1: Determine if TLC's Responsible Gambling Program's Internal Controls are Effective

We performed audit procedures to assess the presence and effectiveness of internal controls to provide reasonable assurance that the agency's responsible gambling program achieves the following objectives:

- ✓ The agency has consistent processes and oversight for the responsible gambling program.



- ✓ Program oversight includes a designated department or individual that ensures agency and primary vendor staff and retailers are properly trained on the program.
- ✓ The agency's responsible gambling program is a part of the organization's culture.
- ✓ The agency's decision-making process for activities, promotions and game design includes their responsible gambling program requirements and commitments.

Audit Conclusion

TLC has effective processes in place to ensure that they have a responsible gambling program although they receive no funding for the program.

One of TLC's most important initiatives that supports their social responsibility components is the responsible gambling program. TLC's Media Relations Division, Administration Division and Human Resources Division aid in the efforts of the program; however, the overall responsibility of the program resides within TLC's Lottery Operations Division.

The Retailer Development Coordinator, who resides within Lottery Operations, coordinates all problem gambling activities including training for members of the IGT sales team, retailers, advertising agency staff and TLC employees. Also, the Retailer Development Coordinator works to obtain and maintain memberships and certifications applicable to national responsible gambling organizations. These include:

- ✓ World Lottery Association (WLA) Level 3 Responsible Gaming Framework (certified through 2019)

- ✓ National Council on Problem Gambling (NCPG) Silver Member
- ✓ NCPG-NASPL Responsible Gambling Program Verification (submission completed July 2018 for evaluation by September 2018)

While the United States has a total of forty-four state lotteries only 16 (36 percent) have received WLA certification. Texas is one of seven state lotteries with WLA Level 3 Certified Responsible Gaming Framework; four states are Level 4 certified and five states are Level 2 certified.

While TLC operates without designated funding for the responsible gambling program, they partner with vendors, such as IGT and LatinWorks, to utilize training space to facilitate instructor-led RG training to retailers and sales team staff.

In August 2018, TLC held an internal problem gambling training at the TLC headquarters. This training was led by the Executive Director of Oklahoma Association for Problem and Compulsive Gambling/Member of the Board of Directors for the National Council on Problem Gambling. This training covered the following areas of employee and lottery responsibilities:

- ✓ Understanding the signs of a customer that is developing a problem with their gambling.
- ✓ Learning the signs of a customer in crisis.
- ✓ Problem gambling services available.
- ✓ Underage customers and identification verification.

As stewards of the RG program, the Lottery Operations Division, in collaboration with the Administration Division, designs RG content for the public/players, retailers and TLC



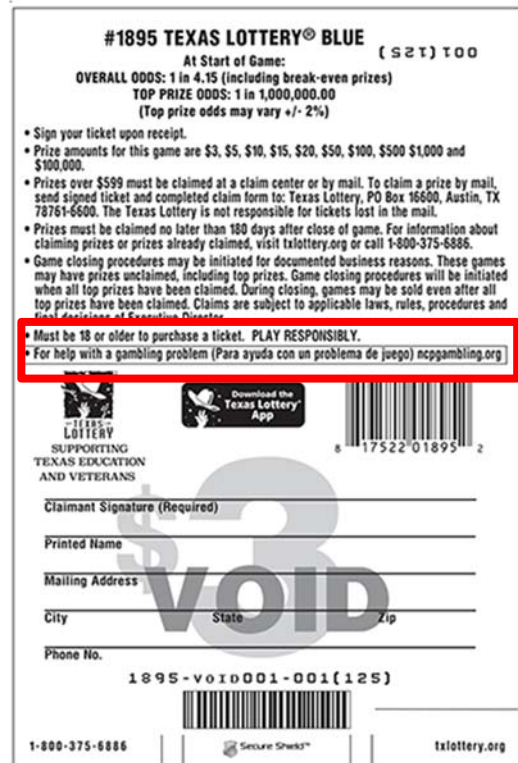
employees and vendor staff. Also, as part of the RG campaign, all advertisements that contain audio emphasize the “Play Responsibly” initiative while all printed public-facing pieces, including scratch and draw tickets, display either the Play Responsibly logo, text or contact information for the National Council on Problem Gambling. Below are examples of TLC’s printed materials that emphasize responsible gambling.



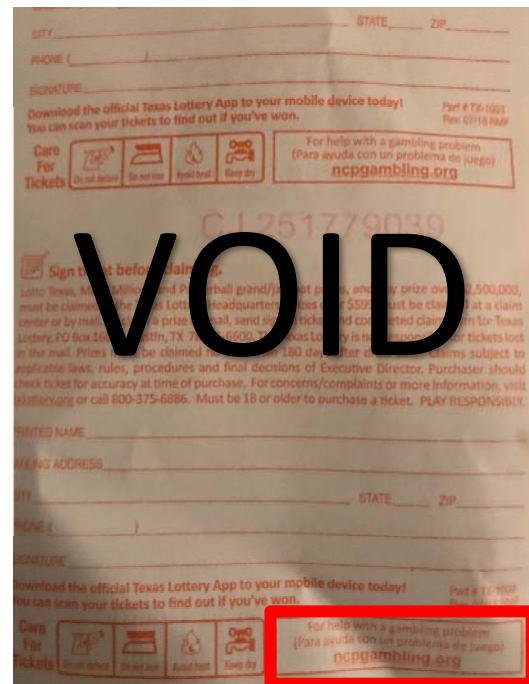
Responsible Gambling Brochure



TLC Play Responsibly Seal



Back of Texas Lottery Blue Scratch Ticket



Back of Draw Game Roll Stock



Audit Recommendation #1

No recommendations are made for the management and oversight of the TLC's

Responsible Gambling program as internal controls are appropriate and effective.

Audit Objective #2: Determine if TLC's Charitable Efforts are Properly Authorized, Monitored and Documented.

We performed audit procedures to assess the presence and effectiveness of internal controls to provide reasonable assurance that the agency's charitable campaign efforts achieves the following objectives:

- ✓ The agency has process in place to ensure charitable campaign efforts and activities are authorized and do not violate state requirements.
- ✓ The agency has processes in place to ensure that charitable campaign efforts do not go against the agency's mission and core values.
- ✓ The agency has consistent processes and oversight for charitable activities.
- ✓ There is a designated department or individual that ensures that charitable efforts are communicated to TLC staff.

Audit Conclusion

The Texas Lottery Commission has effective oversight and monitoring controls in place to ensure that all charity drives are authorized and that they are monitored. TLC has processes in place to ensure that all charitable campaigns are authorized by the agency's Executive Director prior to commencing activities. TLC's Human Resources Division is responsible for coordinating all of the agency's charitable campaign activities. The Human Resources Division staff have

developed internal processes to ensure effective monitoring and that necessary documentation is maintained for all charity drives.

SECC Campaign Process

The Texas Lottery Commission participates in selected charitable campaigns. The most notable being the State Employee Charitable Campaign. The Human Resources (HR) Division staff provides oversight to the SECC annual campaign which begins on September 1st and concludes on October 31st. The SECC State Policy Committee, appointed by the Governor, contacts the agency's Executive Director directly by emailing a participation letter which is then provided to the HR Director to notify staff of the approval to participate. Also, SECC staff attends a TLC all staff meeting to speak about their causes and provide staff the opportunity to ask questions and see how their contributions are used.

Human Resources staff post pre-printed SECC announcements around the agency and provide information through the Daily News to all staff informing them of the program's campaign dates. Pledge forms are distributed for employees to indicate the amount they wish to contribute and the charity they wish to contribute to.

Figure 3 provides a summary of the processes involved in the annual SECC campaign.



Figure 3 Annual SECC campaign process.

Contributions to the SECC are generally made by payroll deductions, which Human Resources assists staff by providing and collecting pledge forms. Occasionally staff elect to contribute with a one-time payment and Human Resources staff safeguards the checks made out to SECC by securing them in the Human Resources Division's vault until received by SECC staff.

Figure 4 provides a summary of TLC employee SECC contributions between 2012 and 2017.

| Year | Number of Employee Pledges | Total |
|------|----------------------------|-----------|
| 2012 | 47 | \$ 12,597 |
| 2013 | 37 | \$ 11,156 |
| 2014 | 41 | \$ 13,910 |
| 2015 | 31 | \$ 9,965 |
| 2016 | 32 | \$ 10,414 |
| 2017 | 33 | \$ 11,293 |

Figure 4 2012-2017 TLC employee SECC contributions.

Salvation Army Angel Tree Process

Salvation Army's Angel Tree Program begins in November, shortly after the SECC concludes. The Salvation Army invites the Texas Lottery Commission's Employee Charitable Activity Committee members and Human Resources staff to an annual luncheon to explain the current year's processes and honor the agencies for the previous years' contributions. Once the children to be sponsored are organized by family, age and gender, TLC's Human Resources staff and the Texas Lottery Commission's Employee Charitable Activity Committee promote the program throughout the agency by posting flyers in common areas and sending information to all staff through the Daily News. TLC's Human Resources staff



coordinate and distribute the sponsored children's information while maintaining a spreadsheet to keep track of which employee is sponsoring each child. Logistically, TLC's Human Resources Division is the best department to oversee the program due to

their location in the building and their secure file room is adequate size for maintaining the gifts until distributed to the Salvation Army staff. **Figure 5** provides a summary of TLC's Angel Tree campaign process.



Figure 5 TLC's Angel Tree campaign process.

Blood Drive Process

The quarterly blood drives are organized and advertised by TLC's Human Resources staff. TLC Human Resources staff communicate directly with the blood donation center, "We Are Blood", to select times and dates that can accommodate staff and the center. While on site, the mobile donation unit is visible to surrounding traffic. TLC's Human Resources staff play an intricate role in signing up staff for

the quarterly donations and ensuring participation by agency staff.

Audit Recommendation #2

No recommendations are made for the management and monitoring of the charitable campaigns that TLC's Human Resources oversees as adequate controls are in place and are effective.

