



Texas Lottery Commission Internal Audit

An Internal Audit of

Drawing Equipment Processes

August 22, 2018

Report #18-004

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 the drawing equipment maintenance process. 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 from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Objectives and Scope

The purpose of this audit is to review the business process and internal controls related to the Texas Lottery Commission’s drawing equipment maintenance process to determine if management controls are in place to maintain security and integrity of the lottery games, achieve the business objectives, comply with TLC’S policy and procedures, and comply with legislative statutes. Internal Audit examined the following business processes during the audit process.

1. The management framework supporting the drawing equipment maintenance process.
2. The business processes related to the maintenance of drawing machines and ball sets used in the drawings.

The audit period covered September 1, 2017 through June 30, 2018. However, some test procedures were performed as of the date of fieldwork. This work product was an evaluation at a specific point in time that cannot address the inherent, dynamic nature of subsequent changes to the process/procedures reviewed.

Audit Procedures Performed

We conducted interviews, reviewed written procedures, and performed audit testing of the drawing equipment maintenance process.

Conclusion and Overall Internal Control Rating

The internal controls governing the drawing equipment process are effective and working as intended to achieve the business objectives. Our audit procedures identified no reportable findings.

This audit resulted in an overall internal control rating of **Best Practices** that could be modeled by other lotteries based on the business processes reviewed. **Figure 1** describes the internal control rating.





Internal Control Rating

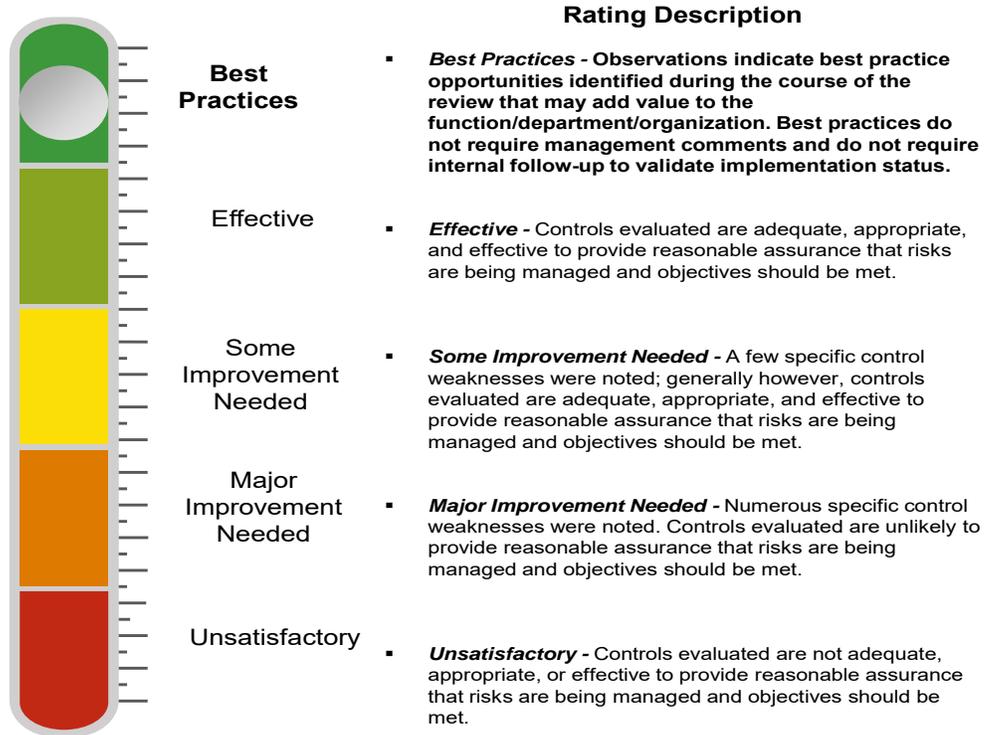


Figure 1 Internal control rating description.

Acknowledgement

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

towards the assessment of their operations. The completion of this audit was due to their efforts and responsiveness to our requests.

BACKGROUND

The Texas Lottery Commission conducts lottery game drawings in a state of the art drawings studio located in historic downtown Austin. The drawing studio process is very transparent with drawings being available for broadcast live on television and the agency’s webpage. The following physical security over the drawing equipment and ball sets are in place.

Drawings Studio Access

- ✓ The Drawings Studio is equipped with robotic cameras. These special cameras minimize the number of people who work on the drawings studio floor near the drawing machines and ball sets.
- ✓ The drawing area of the drawings studio is secured by magnetic door



locks, an alarm system, and a motion detector.

- ✓ A numbered tamper-evident seal is attached to the door when drawing personnel are not present in the drawings studio. The number printed on the seal is logged and checked every time the seal is broken for access into the drawing studio.

Drawing Equipment and Ball Sets

- ✓ Ball sets and drawing machines used for game drawings are stored in a secured storage room at the drawings studio
- ✓ The storage room is secured by a locked steel door, magnetic locks, an alarm system and a motion detector.
- ✓ A numbered tamper-evident seal is attached to the door of the storage room when drawing personnel are not present. The number printed on the seal is logged and checked when the storage room is disarmed and opened.
- ✓ All drawing machines are rotated monthly according to a planned schedule.
- ✓ The designated and alternate ball sets used for the official drawings are selected randomly.
- ✓ All ball sets are weighed according to procedures.
- ✓ The independent accounting firm observes the internal weighing of ball sets. Each ball must meet very strict weight guidelines: The weight of each Ping Pong style ball must fall within +/- 0.095 grams of the average weight of the ball set. The weight of each natural rubber ball must fall within 1 gram of the average weight of the ball set.

All Texas Lottery drawings are open to the public and are certified by an independent accounting firm. For each drawing, the agency has four to six practice runs to ensure that equipment is functioning properly, these practice runs are called “pre-tests”. Every step of the drawing process is recorded by a video recording system and by official documents maintained by both the Texas Lottery Commission and the independent accounting firm. All ball set weights, pre-test results, and official drawing results are reviewed by an independent statistician.

The drawing of random numbers to determine lottery game winners is completed with drawing equipment machines and ball sets. TLC currently has the following games that require drawing equipment and ball sets:

- ✓ Pick 3
- ✓ Daily 4
- ✓ All or Nothing
- ✓ Cash Five
- ✓ Texas Two Step
- ✓ Lotto Texas
- ✓ Texas Triple Chance

TLC also has a developed equipment and ball set maintenance process and a documented business continuity plan to ensure the drawing machines and ball sets are performing according to TLC’s standards and to meet business objectives.

TLC uses multiple drawing machines and balls sets manufactured by various vendors documented on the Texas Lottery webpage. Currently ball set maintenance activities are based upon the number of times the games are played. **Figure 1** documents each draw games and ball types used.





Game	# of Machines Available for Use	Ball Style Types	Ball Set Internal Weighing Frequency	Ball Set External Weighing Frequency	Ball Set Clean or Wash and Seal Frequency	Ball Set Microscopic Inspection Frequency
Lotto Texas	3	Rubber Ball	N/A	Biannually	Biannually	Biannually
Cash Five	3	Ping Pong	N/A	Biannually	Biannually	Biannually
Texas Two Step	3	Ping Pong	N/A	Biannually	Biannually	Biannually
Texas Triple Chance	3	Ping Pong	N/A	Biannually	Biannually	Biannually
Daily 4	5	Ping Pong	Quarterly	Annually	Quarterly	Quarterly
Pick 3	5	Ping Pong	Quarterly	Annually	Quarterly	Quarterly
All or Nothing	3	Ping Pong	Quarterly	Annually	Quarterly	Quarterly

Figure 1 Game Drawing Equipment

Each game also has one operational drawing machine available for use at TLC’s business continuity facility.

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 management framework effectively maintains the drawing equipment process to ensure compliance with documented policies and state requirements.

Does the agency have developed and approved policy and procedures governing the drawing equipment security and maintenance process? Do processes completed by staff reflect training of the policy and procedures? Does the agency maintain documentation of the drawing equipment maintenance performed?

Audit Conclusion

The Texas Lottery Commission has developed an effective management framework governing the drawing equipment security and



maintenance process. TLC has developed policy and procedures that document the drawing equipment maintenance processes, roles, responsibility, and authority. This documentation includes the following:

- ✓ The air pressure and other settings for each draw machine type.
- ✓ Description of how the machines are stored.
- ✓ The drawing machine maintenance process.
- ✓ The storage of the machines.
- ✓ Drawing equipment business continuity plan.
- ✓ The manufacturer service process.
- ✓ Drawing machine replacement process.

Written policy, procedures and forms for the drawing equipment maintenance function ensure that the knowledge of these key processes remain with the agency and do not leave when experienced staff are no longer in the position. These policy and procedures include maintenance schedules and specifications for drawing equipment settings and ball set weights.

Our audit interview process noted that staff have a strong understanding of the documented processes which we also validated through the audit testing process.

We also determined the agency has developed a program to maintain documentation supporting the maintenance of all drawing equipment. The agency currently maintains this documentation based on their approved document retention schedule. This documentation provides the agency assurance that it can substantiate the drawing equipment

maintenance process when the public or outside regulatory body presents questions related to maintenance of drawing equipment.

Documentation maintained by the agency also serves as evidence of the oversight and monitoring that is occurring when the drawing equipment maintenance process occurs. The type of maintenance completed is determined by the type of machine used for a specific game. Each checklist documents the game type, date of maintenance, the letter of the machine serviced, the signature and date of the Lottery Drawing Specialist that completed the process.

Logs are also completed for all ball set weighting and maintenance activities. These logs include the date, ball number, test results, ball weights, staff initials and comments.

External drawing equipment and ball set testing reports are also maintained by the agency according to the approved document retention schedule.

Audit Recommendation #1

No recommendations are made for the management framework and oversight of the drawing equipment maintenance processes. The documented policies, processes, forms and reports are comprehensive and serve as a strong foundation to ensure security and integrity of lottery games. Our audit testing resulted in 100 percent compliance with established policy and procedures.



Audit Objective #2: Determine if the agency has a systematic process to ensure the maintenance of the drawing equipment and ball sets address the agency's objectives and compliance standards.

Does the agency have an accounting of equipment and ball sets used and serviced? Does the agency schedule maintenance of the drawing machines and ball sets? Does documentation exist to support that maintenance has occurred?

Audit Conclusion

The Texas Lottery Commission has developed an effective process to provide assurance that drawing equipment and ball set maintenance occurs by the agency. We noted that different processes are used to maintain the drawing machines and ball sets. However, the agency maintains a systematic overall process that includes scheduling, documenting, and oversight of the process completed.

Drawing Machines Maintenance (DMM)

The maintenance of the drawing equipment (machines) occur when the machine is not in service. The rotation of the machines is documented in the agency’s DMM log and this determines when a machine will be serviced. TLC’s Lottery Drawing Specialist completes the routine service except when the machine is due for service from the manufacturer. The respective manufacturer completes the service on site based on contractual obligations. Note: When the drawing machine is serviced by the manufacturer, the agency will not perform maintenance but will ensure the service performed by the manufacturer is documented.

The Lottery Drawing Specialist completes a checklist of the maintenance performed. This checklist is maintained according to the agency’s approved document retention

schedule. The date on the log and checklist reconcile based on when the service was completed. The checklist also officially documents the key items completed on the machine with documentation of any issues noted.

Our audit testing of this process noted 100 percent compliance based on the following attributes tested:

- ✓ Service was completed based on the DMM schedule.
- ✓ Documentation was maintained and provided.
- ✓ Signature and date on checklist reconcile to DMM entry.
- ✓ Documentation of service was completed with no issues noted.

Ball Sets

The Drawing sections team prepares a monthly maintenance schedule that shows the date and time for ball set maintenance which could include:

- ✓ external weighing;
- ✓ internal weighing;
- ✓ washing and sealing; and
- ✓ ball set cleaning.

The timing for each ball set maintenance varies by game as does the type of cleaning. For example, ball set cleaning or washing and sealing is only completed for Lotto Texas. Additionally, maintenance is not performed on ball sets that are already selected and securely sealed for a designated drawing.



The Texas Department of Agriculture is contracted to perform the weighing process for ball sets used in Cash Five, Texas Triple Chance, Texas Two Step and Lotto Texas draw games every six months and once a year for Pick 3, Daily 4, All or Nothing, based on the schedule developed by the agency.

Our audit sampling of the ball set maintenance noted 100 percent compliance with established policies, procedures and statute based on the following attributes:

1. Documentation of each ball set's maintenance was completed, maintained and provided.
2. Documentation of the type of service completed on the ball sets was completed, maintained and provided.

3. External weighing of ball sets was completed and documented.
4. Ball set maintenance announcement was performed.

Audit Recommendation #2

No recommendations are made for the systematic completion of drawing equipment maintenance processes. The documented policies, processes, forms and reports are comprehensive and serve as a strong foundation to ensure security and integrity of lottery games. Our audit testing resulted in 100 percent compliance with established policy, procedures and statute.