



Texas Lottery Commission Internal Audit Services

An Internal Audit of:

Draw Games Changes

Report #19-003

September 25, 2019

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.



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



AUDIT AT A GLANCE



- | <u>Purpose</u> | <u>Scope</u> | <u>Focus</u> | <u>Internal Control Rating</u> | <u>Recommendations</u> |
|--|---|--|---|---|
| <ul style="list-style-type: none"> To assess TLC’s processes and internal controls for draw game changes. | <ul style="list-style-type: none"> Cash 5 Pick 3 Daily 4 September 1, 2018 – May 31, 2019 | <ul style="list-style-type: none"> Discontinuance of “Sum It Up” Feature Implementation of “FIREBALL” Feature Cash Five matrix update | <ul style="list-style-type: none"> Best Practice | <ul style="list-style-type: none"> No recommendations to report. |

Number of Finds by Risk Rating

High	Medium	Low	Total
0	0	0	0

Acknowledgement



We wish to thank all staff involved in the audit for their time and efforts. Without their assistance, we would not have been able to complete this audit.



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 Draw Game Changes, specifically draw game changes made during FY 2019. MJ included this audit in the approved FY 2019 Internal Audit Program

We conducted the Draw Game Changes audit in conformance 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 during the audit satisfied GAGAS standards.

We have not omitted pertinent information from this report, which summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE



The purpose of this audit was to evaluate TLC's processes and internal controls surrounding draw game changes.

This audit focused on the agency's implementation of draw game changes associated with the Cash Five game and the Pick 3 and Daily 4 "FIREBALL" add-on features. We designed audit procedures to:

- ✓ Ensure that the Cash Five game matrix was updated to reflect rule changes for TAC §401.308.
- ✓ Ensure that the FIREBALL game matrix for Pick 3 and Daily 4 reflects rule changes for TAC §401.307 and TAC §401.316.
- ✓ Ensure that applicable contract changes were made associated with the production and broadcasting of draw game changes.
- ✓ Ensure that the acquisition of game equipment and ball sets followed the procurement process.
- ✓ Ensure that accounting updates were made to establish or update liability accounts.
- ✓ Ensure that software updates were made, and testing was performed by TLC staff.
- ✓ Ensure that TLC notified the public of the draw game changes made prior to the go-live date.
- ✓ Ensure internal procedures were updated to reflect recent draw game change specifications.
- ✓ Ensure that TLC staff and customer service representatives were properly trained to assist the public in draw game functions that occurred as a result of the changes.

SCOPE



The scope period for this audit was September 1, 2018 through May 31, 2019. We performed some of our test procedures as of the date of fieldwork. This work product includes our



evaluation at a specific point in time, and cannot address the inherent, dynamic nature of subsequent changes to the process and procedures reviewed during our audit process.

PROCEDURES PERFORMED



We gathered documentation, conducted interviews and completed audit testing procedures to assess draw game change internal controls and processes.

CONCLUSION AND INTERNAL CONTROL RATING



*This audit did not identify reportable findings and resulted in an overall internal control rating of **Best Practices**. **Figure 1** describes the internal control rating.*

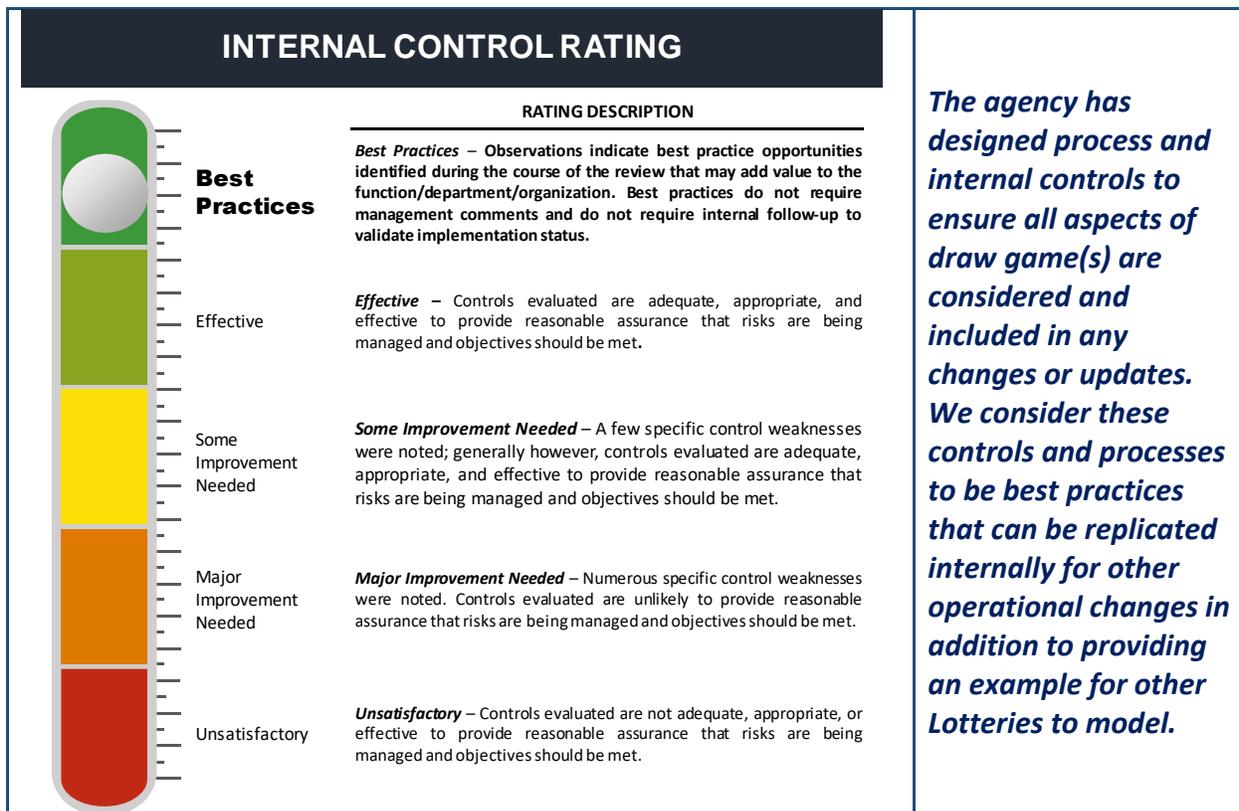


Figure 1 Internal Control Rating Description



TLC GAME CHANGES OVERVIEW



This section of the report provides an overview of TLC’s processes to implement draw game changes.

The Texas Lottery Commission develops and oversees the execution of entertaining games for lottery players. Occasionally new draw games are created, introduced, retired or modified. On September 23, 2018 the agency launched a significant change to Cash Five and on April 29, 2019 to Pick 3 and Daily 4 games. The Cash Five game matrix was modified, and a new feature named “FIREBALL” was added to Pick 3 and Daily 4 to replace the retiring “Sum It Up!” feature. FIREBALL is an add-on feature that players must select when purchasing their Pick 3 or Daily 4 play. **Figure 2** shows the history of the three draw games assessed and discussed in this report.

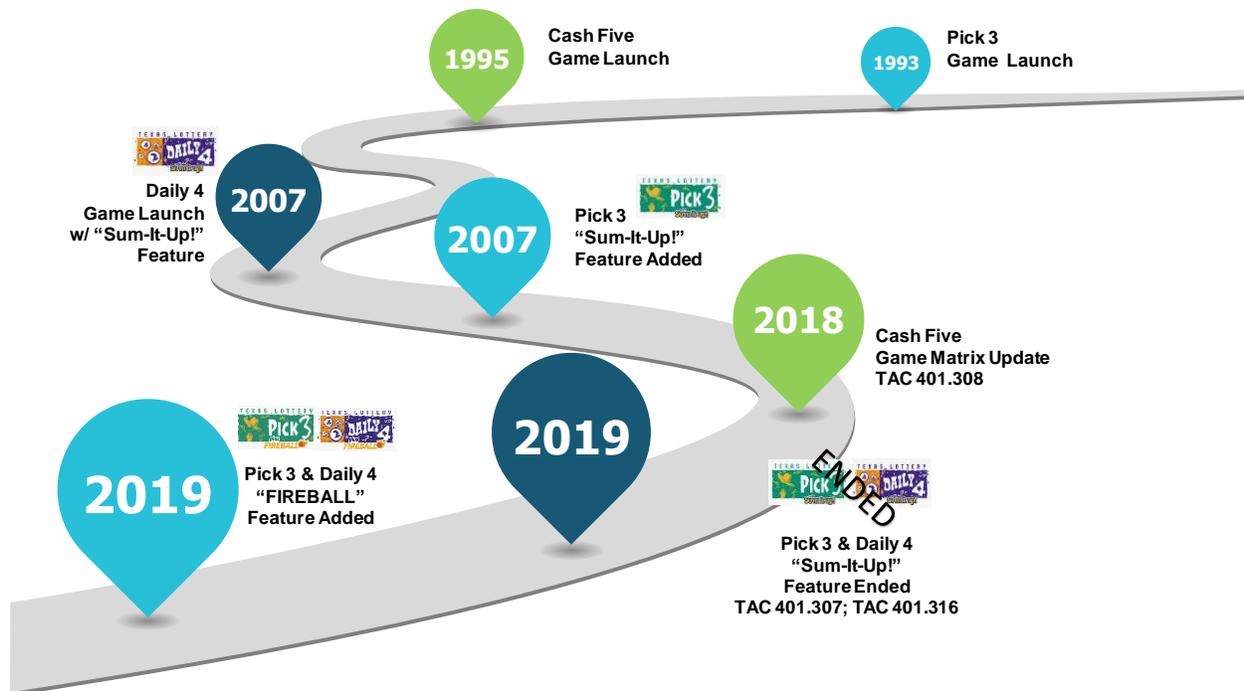


Figure 2 Pick 3, Daily 4 and Cash Five Game History

A major component to any draw game change is to modify the Texas Administrative Code (TAC) associated with the respective game. Accordingly, the agency modified TAC §401.308 for the Cash Five game and TAC §401.307 and TAC §401.316 for the Pick 3 and Daily 4 games. The TAC modification process is that notice must be provided in the Texas Register, a period for public comment must be provided and the Commissioners then vote on the proposed changes. **Figure 3** provides an excerpt of the agency’s Texas Register notices for TAC §401.308, TAC §401.307 and TAC §401.316.



16 TAC §401.308

The Texas Lottery Commission (Commission) adopts amendments to 16 TAC §401.308 ("Cash Five" Draw Game Rule), without changes to the proposed text as published in the April 27, 2018, issue of the *Texas Register* (43 TexReg 2507). The amendments change the Cash Five game matrix, offer guaranteed (fixed) prizes and set a liability limit for the Match 5 top prize. The new game matrix will change from the selection of 5 numbers out of a field of 37 numbers to a selection of 5 numbers out of a field of 35 numbers. This matrix change will improve the overall odds to win a prize in the Cash Five game. The Commission anticipates the changes to the Cash Five game to be implemented September 24, 2018.

16 TAC §401.307, §401.316

The Texas Lottery Commission (Commission) proposes amendments to 16 TAC §401.307 ("Pick 3" Draw Game Rule) and 16 TAC §401.316 ("Daily 4" Draw Game Rule). The purpose of the proposed amendments is to end the current Sum It Up add-on feature and replace it with a new add-on feature called FIREBALL (to be referred to as Pick 3 *plus* FIREBALL® and Daily 4 *plus* FIREBALL®). A player who purchases either the Pick 3 *plus* FIREBALL or the Daily 4 *plus* FIREBALL feature will get to use an extra number, randomly drawn after each of the Pick 3 and Daily 4 base game drawings, to create more winning combinations and increase the player's chances of winning a prize. The Commission anticipates the changes to the Pick 3 and Daily 4 games to be implemented in March 2019; however, a specific implementation date for the FIREBALL feature has not been established at this time. In addition to the proposed changes to the text as published, the Commission wishes to inform the public it also is considering the potential need for a liability limit requiring a pari-mutuel payout of the FIREBALL prizes in both games in the event of an unforeseen large number of plays winning more than one FIREBALL prize. Accordingly, the Commission also welcomes comments on this issue. If the Commission determines a liability limit is necessary, the adopted rule language will reflect this change and may also reflect adjustments to the odds of winning a prize as currently stated in the rule prize charts.

Figure 3 Texas Administrative Code §401.308, TAC §401.307 and TAC §401.316 Texas Register Notices Excerpts



TLC DRAWING GAME CHANGES ROLES & RESPONSIBILITIES

TLC’s process for implementing draw game changes is a collaborative effort between multiple divisions/departments. This is achieved through the creation of an implementation team each time a draw game changes. An implementation project plan is used to guide the process. The agency’s Draw Games Coordinator is the primary person that develops, maintains and monitors the implementation project plan. Each division/department executes project plan tasks; however, more detailed planning is performed by each department/division involved. The progress of the implementation plan is communicated to the Draw Games Coordinator through regular team meetings. **Figure 4** illustrates each division/department’s responsibilities.

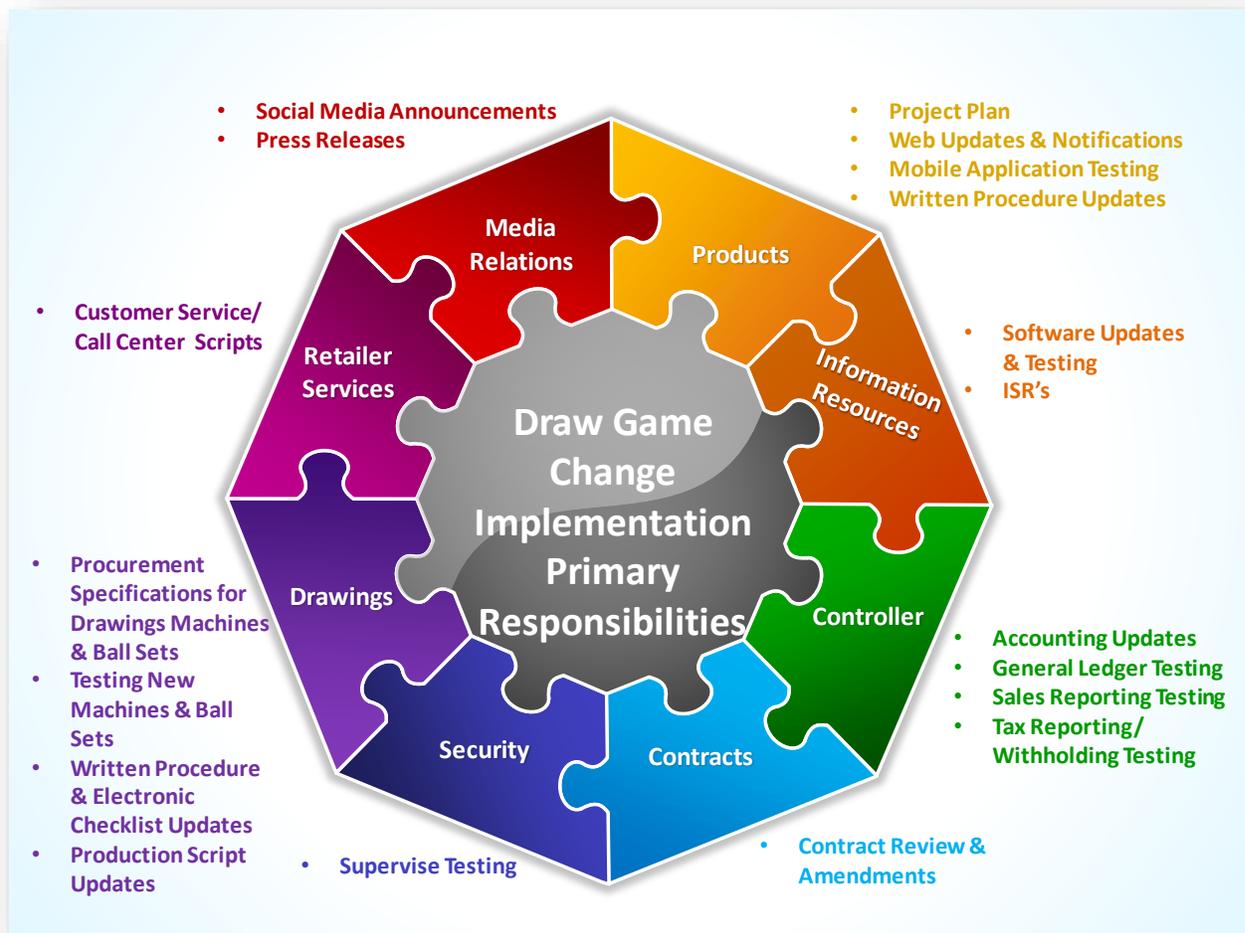


Figure 4 Game Change Implementation Team Primary Responsibilities



TLC DRAW GAME CHANGES BUSINESS OBJECTIVES AND RISKS



This section of the report provides a summary of the business objectives, primary business risks, TLC’s internal controls in place and the respective internal control assessment for draw game changes. TLC established internal controls in the form of policies, procedures, management review and monitoring processes. These internal controls are effective and working as intended.

1

BUSINESS OBJECTIVE 1

Game Change Planning and Implementation

Business Objective	To ensure that draw game changes are planned and implemented in accordance with the respective rule change.
Business Risk	<ul style="list-style-type: none"> ➤ Some processes may not be appropriately changed due to not including all impacted divisions or departments in the implementation planning and execution. Activities. ➤ The “Sum-It-Up!” feature within Pick 3 and Daily 4 might not be discontinued. ➤ TLC may not be in compliance with respective Rules.
Management Controls in Place	<ul style="list-style-type: none"> ➤ Implementation team organized by the Draw Games Coordinator to include representatives from each division within TLC. ➤ Implementation team meets regularly to discuss progression of implementation project plan steps, establish deadlines and discuss issues preventing them from completing tasks. ➤ The Draw Games Coordinator utilizes project plan template to plan each step that could occur within the implementation of the draw game changes. ➤ The Draw Games Coordinator is the key contact for each draw game change project plan implementation.
Control Tests Performed	<ul style="list-style-type: none"> ➤ Reviewed completed implementation project plans. ➤ Conducted interviews/walkthroughs. ➤ Performed audit testing of draw game testing completion.
Control Assessment	<p>Internal controls are effective</p> <ul style="list-style-type: none"> ➤ Project plan is prepared, and a cross-divisional implementation team is assembled to ensure all aspects of draw game changes are considered and implemented. TLC staff should consider documenting the completion of project plan steps by sending an email to the draw games coordinator to attest to the updated status.



BUSINESS OBJECTIVE 1 <i>Game Change Planning and Implementation</i>	
Recommended Actions	None
Management Action Plan	None Required

2 BUSINESS OBJECTIVE 2 <i>Game Drawings Written Procedure & Electronic Checklist Updates</i>	
Business Objective	To ensure that TLC’s Drawings & Validations Department’s procedures and electronic checklists are updated to reflect Rule and draw game changes.
Business Risk	<ul style="list-style-type: none"> ➤ Rule changes may not be incorporated into updated procedures. ➤ Electronic checklists may not be updated to incorporate draw game changes.
Management Controls in Place	<ul style="list-style-type: none"> ➤ Drawings & Validations Manager and Drawings Supervisor are members of the game changes implementation team. ➤ Drawings Supervisor updates game drawings procedure and electronic checklists based on draw game changes. ➤ Drawings Supervisor ensures that Independent Auditors are informed of game changes; furthermore, Independent Auditors utilizes drawings procedure as a reference to perform daily tasks.
Control Tests Performed	<ul style="list-style-type: none"> ➤ Reviewed Completed Implementation Project Plans. ➤ Reviewed Drawings Procedure LO-DR-002 (effective/approved June 11, 2019). ➤ Reviewed Drawings Procedure Attachments/Electronic Checklists. ➤ Conducted interviews/walkthroughs.
Control Assessment	<p>Internal controls are effective</p> <ul style="list-style-type: none"> ➤ Drawings procedures and electronic checklist were updated as draw game changes were implemented.
Recommended Actions	None
Management Action Plan	None Required



3

BUSINESS OBJECTIVE 3
Drawings Equipment & Testing

Business Objective	To ensure needed equipment is identified, procured and tested when draw game changes occur.
Business Risk	<ul style="list-style-type: none"> ➤ Draw game equipment may not be acquired through procurement process. ➤ Draw game equipment may not be adequately tested prior to go-live date.
Management Controls in Place	<ul style="list-style-type: none"> ➤ The Contracts Management & Procurement Manager and the Facilities Manager are members of the draw game changes implementation team. ➤ The Contracts Management & Procurement Manager, Facilities Manager and Drawings Supervisor work together to develop specifications for equipment needed to address draw game changes. ➤ Invitation for Bid (IFB) RQ19-0112DN was developed by TLC to acquire FIREBALL drawing machines and ball sets. ➤ TLC consults with external statisticians to develop testing plan. ➤ Equipment testing templates are created based on the external statistician’s input.
Control Tests Performed	<ul style="list-style-type: none"> ➤ Reviewed completed implementation project plans. ➤ Reviewed the external statisticians testing design/recommendation. ➤ Reviewed procurement documents. ➤ Conducted interviews/walkthroughs. ➤ Reviewed ball set and machine testing output.
Control Assessment	<p>Internal controls are effective</p> <ul style="list-style-type: none"> ➤ Draw game equipment was acquired through TLC’s procurement processes which align with State of Texas Procurement Policy. ➤ Drawings Department staff performed tests on equipment which mirrored the external statistician’s recommendations.
Recommended Actions	None
Management Action Plan	None Required



4 BUSINESS OBJECTIVE 4

Accounting Updates

Business Objective	To ensure the Office of the Controller (OC) incorporates applicable game changes into accounting updates and tests their processes for accuracy.
Business Risk	<ul style="list-style-type: none"> ➤ Revenue generated may not be reflected accurately on the General Ledger. ➤ Liability accounts may not be established or updated to reflect the addition of the “FIREBALL” feature. ➤ Accounting activities may not ensure that the “Sum-It-Up!” feature within Pick 3 and Daily 4 might not be discontinued.
Management Controls in Place	<ul style="list-style-type: none"> ➤ OC has several representatives on the game changes implementation team. ➤ OC develops internal detailed testing plan of activities for wager/scenario, validation, retailer adjustments, prize payment, weekly sweeps, and tax reporting. ➤ OC’s testing plan documents each task to be performed by primary staff members daily, including backup staff to perform testing if primary tester is not available. ➤ OC creates a game code for each game and game feature to be activated and deactivated based on the life of the game. ➤ OC maintains completed testing support in accordance with the agency’s records retention policy.
Control Tests Performed	<ul style="list-style-type: none"> ➤ Reviewed completed implementation project plans. ➤ Conducted interviews/walkthroughs. ➤ Reviewed OC testing documents. ➤ Tested General Ledger entries for “FIREBALL” and “Sum-It-Up!” features.
Control Assessment	<p>Internal controls are effective</p> <ul style="list-style-type: none"> ➤ The Office of the Controller has developed a detailed process to ensure accounting updates are performed timely to ensure that revenue is accurately stated on the General Ledger.
Recommended Actions	None
Management Action Plan	None Required



5

BUSINESS OBJECTIVE 5

Internal System Updates

Business Objective	To ensure the software requirements associated with game changes are updated and incorporated into internal information systems.
Business Risk	<ul style="list-style-type: none"> ➤ TLC’s internal information systems may not successfully update to implement the software requirements mandated by the lottery vendor. ➤ Software updates may not be tested by TLC to ensure functionality, performance and accurate outcomes.
Management Controls in Place	<ul style="list-style-type: none"> ➤ The agency’s Information Resources Division (IR) has several representatives on the draw game changes implementation team. ➤ An Information Service Request (ISR) is created by the Drawings Team and assigned to IR staff. ➤ The lottery vendor develops Software Requirements Specifications. ➤ IR organizes implementation team to ensure lottery vendor/IT Software test steps are planned and executed. ➤ System output is incorporated into software requirement manual (Delta SRS).
Control Tests Performed	<ul style="list-style-type: none"> ➤ Reviewed completed implementation project plans. ➤ Analyzed Software Requirements Specification (Delta SRS) documentation. ➤ Reviewed ISR which initiated the matrix change for Cash Five and “FIREBALL” feature. ➤ Reviewed IR TP62 C5 (Cash Five testing plan) and TP63 P3 D4 (Pick 3 and Daily 4 testing plan). ➤ Performed interviews/walkthroughs.
Control Assessment	<p>Internal controls are effective</p> <ul style="list-style-type: none"> ➤ TLC incorporated software requirements set by the lottery vendor into information system in a timely manner and maintained testing support in accordance with TLC’s records retention policy.
Recommended Actions	None
Management Action Plan	None Required



6

BUSINESS OBJECTIVE 6

Public Correspondence/Customer Service

Business Objective	To ensure game changes are communicated to stakeholders, players and the public.
Business Risk	<ul style="list-style-type: none"> ➤ Stakeholders, players and the public may not have been notified of game changes. ➤ Players may not be informed of how to play new “FIREBALL” feature.
Management Controls in Place	<ul style="list-style-type: none"> ➤ The agency’s Media Relations Division staff are part of the game changes implementation team. ➤ The Advertising and Promotions Department worked with the Products Department and the advertising agency to develop “how-to-play” videos to aide players. These videos are available on the agency website and mobile app. ➤ Retailer Services Supervisor developed customer service scripts to aide customer service representatives in assisting players. ➤ TLC website was updated to reflect the game changes when showing the past winning numbers.
Control Tests Performed	<ul style="list-style-type: none"> ➤ Reviewed completed implementation project plans. ➤ Reviewed social media posts and press releases. ➤ Reviewed customer service and production scripts. ➤ Reviewed website contents. ➤ Performed interviews/walkthroughs.
Control Assessment	<p>Internal controls are effective.</p> <ul style="list-style-type: none"> ➤ TLC utilized many forms of communication to communicate game changes to stakeholders, players and the public.
Recommended Actions	None
Management Action Plan	None Required