



Texas Lottery Commission

Internal Audit Services

An Internal Audit of:

Drawing Studio Processes and Controls

Report #19-004

September 24, 2019

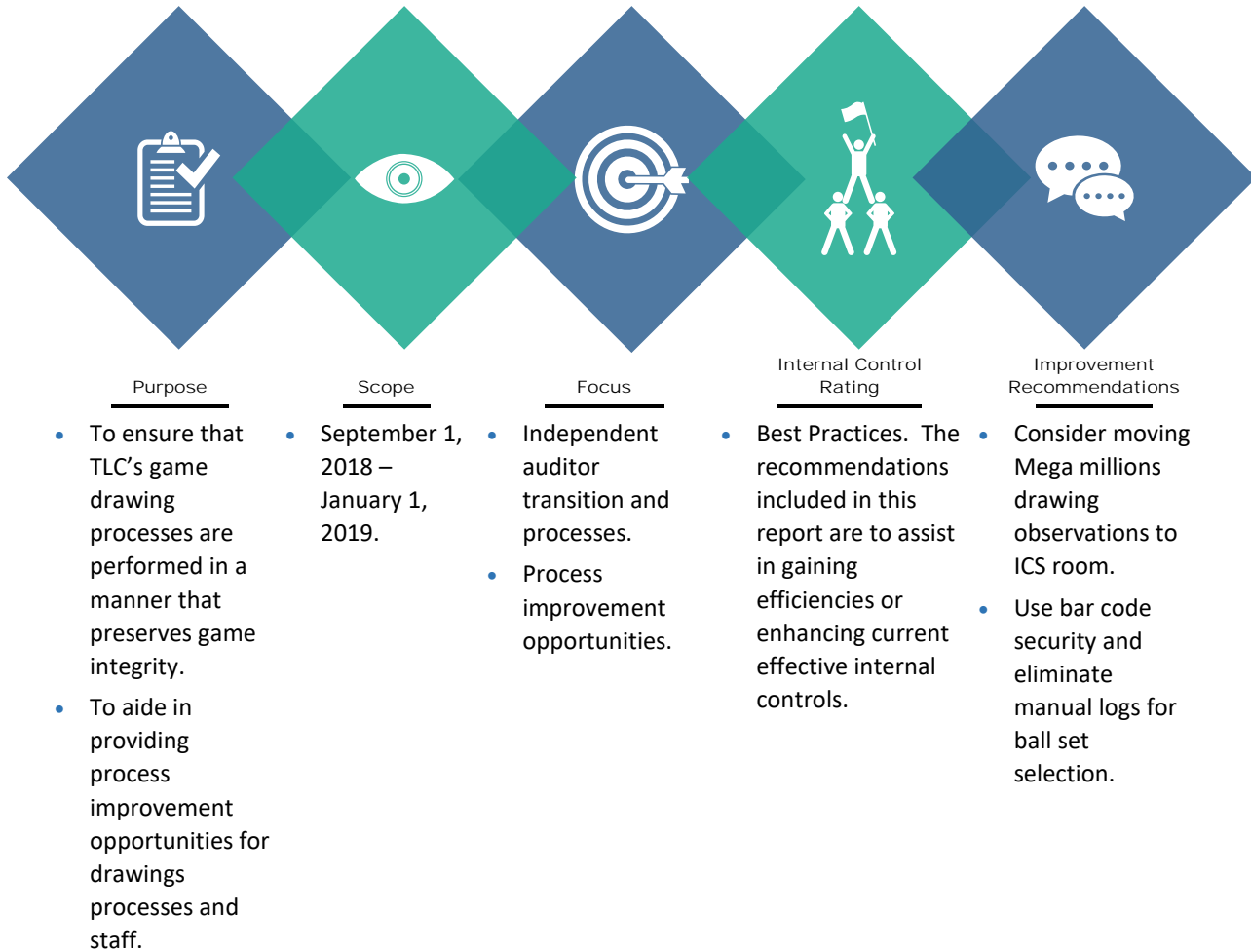
This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



AUDIT AT A GLANCE



Number of Recommendations by Risk Rating

| High | Medium | Low | Total |
|------|--------|-----|-------|
| - | - | 2 | 2 |

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's Drawing Studio Processes. MJ included this audit in the approved FY 2019 Internal Audit Program.

We conducted the Drawing Studio Processes 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 ensure that TLC's drawing studio processes ensure draw game integrity.

We designed audit procedures to:

- ✓ Ensure that TLC's drawing studio processes retained draw game integrity during the transition of independent audit firms and staff.
- ✓ Identify potential process improvement opportunities for drawing studio operations.

SCOPE



The scope period for this audit was September 1, 2018 through January 1, 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, observed drawing studio operations, observed ICS room operations and completed audit testing procedures to assess drawing studio internal controls and processes.

CONCLUSION AND INTERNAL CONTROL RATING



*This audit identified findings that resulted in an overall internal control rating of **Best Practices**. **Figure 1** describes the internal control rating.*

We discussed process improvement opportunities to enhance internal controls and increase process efficiencies with management. Those observations are summarized in **Figure 2**.

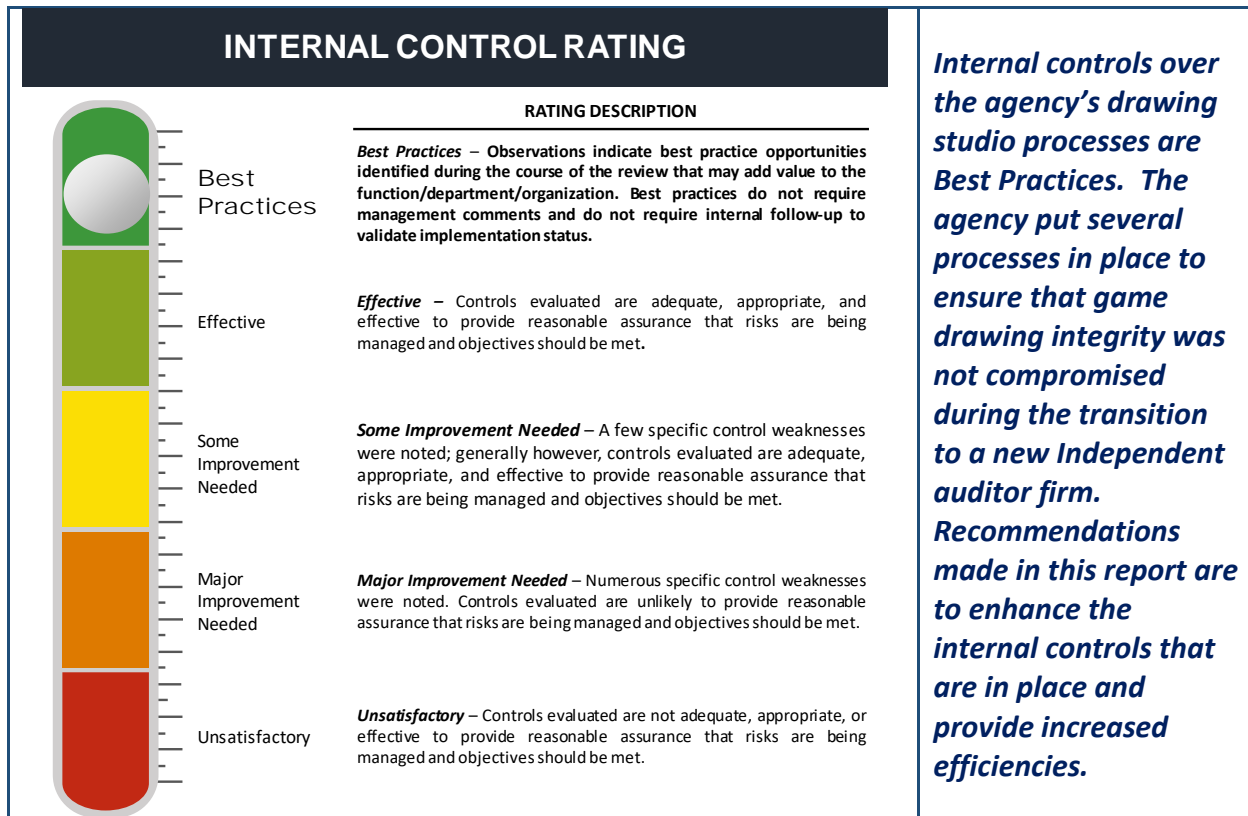


Figure 1 Internal Control Rating Description



OBSERVATION AND RISK RATING SUMMARY



Figure 2 is a summary of process improvement opportunities. See the detailed opportunities section of this report for a discussion of these recommendations.





| Number | Observation | Risk Rating |
|--------|--|---|
| 1 | <p>Mega Millions and Power Ball observations are performed in two different locations of the agency.</p> <p> Recommendation: Consider moving the bi-weekly Mega Millions drawing observations to the ICS room where staff also perform the Power Ball drawing observations.</p> |  |
| 2 | <p>The ball set confirmation process is manual and paper-intensive. Ball set and drawing equipment maintenance records are also paper-based.</p> <p> Recommendation: Use bar code security and eliminate manual logs for ball set selection and confirmation. Update electronic checklist to capture ball set barcode.</p> |  |

Figure 2 Observation and Recommendation Summary

Risk Rating and Suggested Corrective Action Timing Legend:

| | | | |
|-----------|--|---|---|
| Priority: |  Low: < 12 months |  Medium: 6-12 months |  High: < 6 months |
|-----------|--|---|---|

TLC DRAWING STUDIO OPERATIONS OVERVIEW



This section of the report provides an overview of drawing studio processes.

Since the TLC's first game drawing, independent auditors have certified each draw game performed. From 1993 to 2018, the original contracts' subcontractor served as the independent audit firm that certified TLC's draw games. A different audit firm was selected to perform the independent auditor function during the procurement process for FY 2019. The transition from the former independent audit firm was well planned which enabled TLC's drawing studio processes to remain sound and consistent with established processes. An overview of the independent auditor's responsibilities is shown in **Figure 3**. We noted that the Texas Lottery Commission has well established and documented internal controls for the lottery games drawing process.



Figure 3 Independent Auditor Primary Responsibilities for Draw Games

TLC developed electronic checklists to document the required draw game processes. These checklists are designed to be step-by-step instructions and results entry. TLC staff and the independent auditors complete the electronic checklists concurrently for each set of drawings being observed (morning, afternoon, evening, night and multi-state). The designated TLC staff member opens a checklist on one computer and the independent auditor opens a checklist on another computer. The checklists are electronically compared against each other as fields are being completed. The checklists provide a warning when the two do not agree and disables the process from further proceeding until the error(s) have been corrected. At the end of the drawing, the drawing coordinator on duty, drawing studio staff and the independent auditor certifies the draw results and signs off on the checklist. These checklists are used for all draw games.



TLC DRAWING STUDIO BUSINESS OBJECTIVES AND RISKS



This section of the report provides a summary of the drawing studio business objectives, primary business risks, TLC's internal controls in place and the respective internal control assessment. 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

Agreed Upon Procedures

| | |
|------------------------------|---|
| Business Objective | To ensure that TLC's drawing studio processes maintained game integrity during the transition of independent audit firms/staff. |
| Business Risk | <ul style="list-style-type: none"> Independent auditor agreed-upon procedures may not fully document and discuss the work to be performed by the independent auditors during TLC drawings. |
| Management Controls in Place | <ul style="list-style-type: none"> Agreed upon procedures coincide with TLC drawing studio processes and expectations. Contractual obligation to perform drawings according to procedures defined in TLC's Lottery Drawings Procedure. Sanctions are applied for any instance of contractual non-compliance. |
| Control Tests Performed | <ul style="list-style-type: none"> Analyzed applicable written procedures. Observed drawings processes performed in drawing studio and ICS room. Conducted interviews. |
| Control Assessment | Internal controls are effective. |
| Recommended Actions | None. |
| Management Action Plan | None Required. |



2

BUSINESS OBJECTIVE 2

Lottery Drawings Procedures

| | |
|------------------------------|---|
| Business Objective | To ensure that TLC's policies, expectations, roles and responsibilities for drawing studio procedures are documented and updated. |
| Business Risk | <ul style="list-style-type: none"> ➤ Written procedures may not reflect current or complete processes. ➤ TLC drawing studio processes may not be performed in compliance with agency policies and expectations. |
| Management Controls in Place | <ul style="list-style-type: none"> ➤ Procedures are documented to include revision and approval date. ➤ The drawings supervisor reviews and updates written procedures based on process and/or game changes. |
| Control Tests Performed | <ul style="list-style-type: none"> ➤ Reviewed applicable written procedures. ➤ Observed game drawings processes performed in drawing studio and ICS room. |
| Control Assessment | Internal controls are effective. |
| Recommended Actions | None. |
| Management Action Plan | None Required. |

3

BUSINESS OBJECTIVE 3

Electronic Checklists, Game Observations and Ball Set and Equipment Maintenance Documentation

| | |
|------------------------------|--|
| Business Objective | To ensure that drawing studio processes are performed consistently, are documented and associated processes are efficient. |
| Business Risk | <ul style="list-style-type: none"> ➤ Inconsistent processes could lead to errors. ➤ Processes completed may not be documented to evidence that it was performed if or when questions arise. ➤ Maintenance may not be documented to evidence that it was performed. |
| Management Controls in Place | <ul style="list-style-type: none"> ➤ Electronic checklists are used to document all drawing studio processes. ➤ The drawing coordinator on duty, drawing studio staff and the independent auditor certifies the draw results and signs off, for all game draws including multi-state game draw observations. |



| BUSINESS OBJECTIVE 3 <i>Electronic Checklists, Game Observations and Ball Set and Equipment Maintenance Documentation</i> | |
|---|--|
| | <ul style="list-style-type: none"> ➔ Independent auditors observe game drawing preparation, game drawing, and certify drawing results. ➔ Ball sets selected and used are documented on a paper log and maintained in an Excel spreadsheet. ➔ Ball set and equipment maintenance are documented on a paper log and maintained in an Excel spreadsheet. |
| Control Tests Performed | <ul style="list-style-type: none"> ➔ Analyzed applicable written procedures. ➔ Observed drawings processes performed in drawing studio and ICS room. ➔ Observed ball set selection. ➔ Observed ball set maintenance. |
| Control Assessment | Internal controls are effective. Opportunities exist to further strengthen internal controls and increase efficiencies. |
| Recommended Actions | <ul style="list-style-type: none"> ➔ Consider moving the Mega Millions game draw observations to the ICS room (computer center). ➔ Use of bar code security to confirm ball sets being used for the game drawing and possibly eliminate manual logs. Update electronic checklist to capture ball set barcode. |
| Management Action Plan | <ul style="list-style-type: none"> ➔ Management concurs with the recommended action of considering moving the Mega Millions game observations to the ICS room. Lottery Operations Division will work with the Administration Division to assess the move. ➔ Management concurs with the recommended actions of using bar code security to enhance ball set tracking. Lottery Operations will explore a viable solution for implementation. |

4

BUSINESS OBJECTIVE 4 *Drawing studio Staffing*

| | |
|--------------------|--|
| Business Objective | To ensure that drawing studio staff are being utilized for optimal productivity during scheduled hours. |
| Business Risk | <ul style="list-style-type: none"> ➔ Drawing studio may continue to experience high staff turnover. ➔ Drawing studio staff on duty may be underutilized. |



| BUSINESS OBJECTIVE 4 <i>Drawing studio Staffing</i> | |
|--|---|
| Management Controls in Place | <ul style="list-style-type: none"> ➤ Drawing studio staff schedules are prepared in advance. ➤ Drawing studio staff works minimum 40 hours each week. ➤ Between drawings, drawing specialists on-duty are assigned special projects, update records retention logs, file monthly reports, archive documentation, and perform minor drawings equipment maintenance. |
| Control Tests Performed | <ul style="list-style-type: none"> ➤ Analyzed applicable written procedures. ➤ Reviewed staff assignment schedules/calendars. ➤ Observed drawings processes performed in drawing studio and the ICS room. |
| Control Assessment | Internal controls are effective. |
| Recommended Actions | None. |
| Management Action Plan | None required. |

DETAILED OPPORTUNITIES AND RECOMEMNDATIONS



This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to enhance internal controls or the gain efficiencies.

Opportunity #1: Multi-State Draw Games Observations

The Texas Lottery Commission is a member of the Multi-State Lottery Association (MUSL). MUSL administers the multi-state Power Ball and Mega Millions draw games which are broadcast from Tallahassee, Florida and Atlanta, Georgia. Although MUSL administers these two games and they are drawn in other states, TLC is required by MUSL to observe the drawings. These observations are performed through dedicated feeds and live feeds on the internet. The multi-state game drawing observation processes performed by TLC do not impact the outcome of the game; the game draw results are the same regardless of TLC's processes.

The Mega Millions drawing is observed by TLC drawing studio staff and independent auditors in the agency's drawing studio. The Power Ball game is observed by Information Resources (IR) staff and an independent auditor in the agency's ICS room. **Figure 4** provides a summary comparison of multi-state game drawing observation processes.



Mega Millions

- Drawing observation process performed in Drawing studio.
- Drawings coordinator is in drawing studio while drawing is being observed by TLC drawings staff and independent auditor.



Power Ball

- Drawing observation process performed in ICS Room.
- Drawings coordinator is in drawing studio while drawing is being observed by TLC IR staff and independent auditor in ICS room.

Improvement Recommendation #1

Consider moving the Mega Millions game observations and processes to ICS room. This would keep Texas draw games in the drawing studio and multi-state games with live feeds and no influence from Texas processes in the ICS room.

Management Response Recommendation #1

Management concurs with the recommended action of considering moving the Mega Millions game observations to the ICS room. Lottery Operations Division will work with the Administration Division to assess the move.

Opportunity #2: Manual and Paper-Intensive Processes

TLC drawings staff perform ball set selection each day for the following days' drawings. TLC's ball set selection process is being updated to automate the selection process; however, the documentation is still performed manually and on paper.

Each ball set is stored inside a dedicated individual case for that ball set. Paper logs are placed inside the ball set and manually updated each time the ball set is used. The cases are closed and bound with a serialized tamper-proof seal.

When ball set maintenance occurs, the records are maintained in a paper file and an Excel spreadsheet. Additionally, when maintenance is performed on drawing equipment this information is maintained on paper logs maintained in an Excel spreadsheet.

Improvement Recommendation #2

Use bar code security and eliminate manual logs for ball set usage. This can be accomplished by printing a two bar codes for each ball set selected each day. One bar code would be placed inside



the ball set for scanning upon opening and the second bar code would be attached to the ball set for confirmation that the correct ball set is being pulled from the safe. Update the electronic checklist to capture ball set barcodes.

Management Response Recommendation #2

Management concurs with the recommended actions of using bar code security to enhance ball set tracking. Lottery Operations will explore a viable solution for implementation.