



**TEXAS LOTTERY  
COMMISSION**



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**An Internal Audit of  
Lottery Drawings**

**June 2016**

**Report #16-004**

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**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 the Lottery Draw Game draw processes and 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 because it was not deemed privileged or confidential by law. This report summarizes the audit scope, our assessment based on our audit objectives and the detailed audit observation.

## Objectives and Scope

We have completed the audit of the lottery draw game draw processes and internal controls due to the high potential impact on TLC's ability to meet the following business objectives:

1. Maintain public trust in lottery draw games.

2. Ensure integrity of the lottery draw games' draw process.
3. Ensure security of lottery draw games' drawing facilities.
4. To ensure lottery draw games' draw equipment security and integrity.
5. Ensure advertised numbers are reflective of the actual drawings.

TLC is responsible for conducting live number drawings for the following lottery draw games:

- Pick 3 (and Pick 3 Sum It Up\*)
- Daily 4 (and Daily 4 Sum It Up\*)
- All or Nothing
- Cash Five
- Lotto Texas
- Texas Two Step
- Texas Triple Chance

Live number drawings for multistate lottery draw games such as Mega Millions and Powerball are held in Atlanta, Georgia and Tallahassee, Florida. We included review of the monitoring processes for these games which TLC has responsibility in our audit.

\*Note--Sum It Up results are calculated based on Pick 3 and Daily 4 draw results.

***Internal controls over the lottery games' drawings are effective and working as intended***



### Audit Period:

The audit period included September 1, 2014 through December 31, 2015. However, 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:

Based on the audit results, we determined that **controls over the lottery draw game live drawing processes are effective\* and working as intended to achieve the business objectives and are conducted in accordance with documented procedures.** Our audit testing concluded that overall, the drawing process is well documented and managed.

We identified one finding of low impact to achieving TLC's business objectives.

1. TLC Security Division is required to observe a stated number of lottery game drawings per week. TLC's Security Department does perform the observations then completes a daily game observation report and a weekly game observation report summary. These reports do not list the activities performed during the observation. TLC's Security Department should develop and implement an observation checklist that documents the key draw processes monitored and allows for other procedural and general observations to be recorded.

### 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.

### Lottery Game Drawing Process and Controls Summary:

Detailed written procedures exist for each process associated with the lottery draw game drawings. As noted, the Lottery Security Division's supervision and observations procedures can be enhanced with the addition of a checklist related to draw monitoring activities. **Figure 1** provides a summary of the draw game drawing process internal controls and responsibilities. This figure also provides the results of our observations conducted to determine compliance with written procedures.

\*Note-- A rating of effective means that controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.



IC #	Internal Control Description	Conduct Drawing	Record & Broadcast Drawing	Supervise Drawing	Certify Drawing
		TLC Lottery Drawings Specialist (LDS)	Broadcasting Crew (BC)	TLC Security Personnel	Independent Auditor (IA)
1	Arrive to the TLC drawing studio – break door security seal and record entry on log	✓			
2	Check video monitoring system for working order	✓		👤	✓
3	Record studio activity on blank CD	✓			
4	Check electronic checklist system for working order	✓			✓
5	Secured storage room – break door security seal, record entry on log, and disarm alarm	✓			
6	IA Safe – conceal combination while entering, break door security seal, record entry on log, locate and retrieve ball sets			👤	✓
7	Verify correct ball sets for current draw	✓			✓
8	Draw game ball set – break security seal and record entry	✓		👤	
9	Draw game ball set – inspect balls for damage while wearing gloves	✓		👤	✓
10	Draw game machines – verify that correct draw games are on studio floor for the respective draw	✓		👤	
11	Draw game machines – inspect machine for tampering and damage, ensure that pre-test/rehearsal signs are attached, visible on camera, and ready to begin	✓		👤	✓
12	Draw game machines – load initial designated ball sets for each game with correct loading pattern	✓		👤	
13	Draw game machines – verify that accurate draw game balls have been properly loaded			👤	✓



IC #	Internal Control Description	Conduct Drawing	Record & Broadcast Drawing	Supervise Drawing	Certify Drawing
		TLC Lottery Drawings Specialist (LDS)	Broadcasting Crew (BC)	TLC Security Personnel	Independent Auditor (IA)
14	Internal weighing and inspection – perform scheduled maintenance (if necessary)	✓			✓
15	Pre-tests – conduct minimum number of pre-tests on each game	✓		👤	
16	Pre-tests – record winning pre-test numbers	✓		👤	✓
17	Rehearsals – conduct minimum number of rehearsals	✓	✓	👤	✓
18	Pre-draw – load ball sets for actual “live” draw			👤	✓
19	Pre-draw – remove pre-test/rehearsal signs	✓		👤	
20	Pre-draw – inspect draw game machines	✓		👤	✓
21	Open phone line – establish an open phone line with designated IGT Data Center operator	✓			
22	Draw break – all parties involved must be present and cannot leave studio until after “live” draw is complete	✓	✓	👤	✓
23	“Live” draw – perform live draw	✓	✓	👤	
24	“Live” draw – enter and confirm winning numbers on Official Numbers Certification checklist	✓		👤	✓
25	Close phone line – end connection of open phone line with IGT Data Center operator	✓			
26	Draw close – unload draw game machines, attach pre-test/rehearsal signs, remove draw game machines from studio floor (if necessary)	✓		👤	
27	Draw close – attach security seals to ball sets			👤	✓
28	Draw close – secure ball sets and IA safe, attach security seals			👤	✓



IC #	Internal Control Description	Conduct Drawing	Record & Broadcast Drawing	Supervise Drawing	Certify Drawing
		TLC Lottery Drawings Specialist (LDS)	Broadcasting Crew (BC)	TLC Security Personnel	Independent Auditor (IA)
29	Secured storage room – close door and activate alarm	✓		✋	
30	Exit drawings studio – attach door security seal and record entry	✓			
31	Maintain copies of completed checklist for records	✓			✓

**Figure 1: Lottery Games Drawing Internal Controls and Responsibility Summary** Texas Lottery Commission has well established and documented internal controls for the lottery games drawing process. This figure summarizes each control and who is responsible for performing the activity. Check marks indicate the responsible position and that the controls were working and documented during our observations. The hand indicates that we observed this control however it is not documented through a completed checklist or activity log. The absence of a checkmark or hand indicates that responsibility for the internal control step does not reside with the respective function.

Lottery Draw Game Draw Process Business Objectives and Risks:

The following table summarizes TLC’s business objectives, risks, management controls, audit procedures applied, outcomes and recommendations. Details of the one audit observation can be found in the detailed observations and recommendations section following this table.

Objective #	1	2	3
<b>Business Objective</b>	To maintain public trust in lottery draw games.	To ensure lottery game drawing process security and integrity.	To ensure lottery game drawing facility security.
<b>Business Risk</b>	Lost public trust results in decreased sales.	Lack of integrity and consistent drawing processes result in reputational damage and a decline in public trust.	Lack of facility security can result in tampered drawing equipment.
<b>Management</b>	Drawings are conducted on live	Independent auditor observation	Access to facility is through electronic badges



Objective #	1	2	3
<b>Controls</b>	<p>television. Recordings of the drawings are also posted to the Agency’s webpage and are available for review at the public’s leisure.</p> <p>The drawing studio is open to the public to observe any live game draws.</p> <p>Game draws are observed and certified by an independent auditor that is present at every game draw.</p> <p>Game draw results are advertised through various media outlets.</p>	<p>and certification of the drawing process.</p> <p>TLC security staff supervise/observe drawings.</p> <p>Well written procedures.</p> <p>Each business process is documented by detailed checklists.</p> <p>Lottery drawing specialists are required to attend training and receive an internal certification for each role that they serve in the drawing process.</p> <p>TLC Security Department staff and independent auditors attend training on game drawing processes and procedures.</p>	<p>and is restricted to authorized individuals.</p> <p>Facility is locked at all times and a serially numbered security tag is placed on the door.</p> <p>A studio floor door entry control log is maintained that includes dates and individuals.</p> <p>A secured room door entry control log is maintained that includes dates and individuals.</p> <p>An IA safe entry control log is maintained that includes dates and individuals.</p>
<b>Control Tests</b>	<p>Observed live game draw processes to ensure compliance with documented procedures.</p>	<p>Reviewed written procedures.</p> <p>Reviewed completed checklists.</p> <p>Observed live game draw processes to ensure compliance with documented procedures.</p>	<p>Observed the drawings studio physical security.</p> <p>Reviewed security tag log for completeness.</p> <p>Observed security tags in place.</p>
<b>Results</b>	<p>Internal controls are effective and working to meet the business objective. Staff followed written</p>	<p>Internal controls are effective to ensure lottery draw game drawing process integrity. Staff followed</p>	<p>Internal controls are effective to ensure lottery drawing facility security. Staff followed written procedures and completed</p>



Objective #	1	2	3
	procedures throughout the game draw processes.	written procedures throughout the game draw processes. While the Security Department utilizes procedures in supervising drawings, it is recommended that draw checklist be incorporated into the performance of these duties to ensure that each observation step is being documented.	security tag logs.
<b>Recommended Actions</b>	None	Develop and implement written checklists for Security Department staff to use during drawing observations. Checklist should include a signature line for the Security Team member performing the observation and monitoring of the drawing.	None
<b>Management Action Plans</b>	None required.	Management concurs with the recommendation and anticipates a checklist implementation date of July 31, 2016.	None required.

Objective #	4	5
<b>Business Objective</b>	To ensure lottery game drawing equipment security and integrity.	Ensure advertised numbers are reflective of the actual drawings.
<b>Business Risk</b>	Equipment that is damaged could lead to drawing delays, drawing failure or non-random drawings.  Equipment that is tampered with could lead to non-random	Incorrect advertised numbers could potentially result in reputational damage if lottery players attempt to claim what they think is a winning ticket based on the advertised numbers.



Objective #	4	5
	or biased drawings.	
<b>Management Controls</b>	Equipment is physically secured when not in use.  Equipment is inspected prior to each drawing.	TLC drawings staff complete the Numbers Verification checklist which documents processes and numbers drawn.  The checklist is reviewed signed by the drawings manager, drawings coordinator and independent auditor prior to advertisements.
<b>Control Tests</b>	Reviewed written procedures and observed physical security operations to verify compliance with procedures.	Sampled the Numbers Verification checklists and reviewed for completion and review signatures.  Compared completed Numbers Verification checklists to advertised numbers.
<b>Results</b>	Internal controls over equipment security are effective and working as designed.	Internal controls over advertised drawing numbers are effective and working as designed.
<b>Recommended Actions</b>	None	None
<b>Management Action Plans</b>	None Required	None Required



## Detailed Observations and Recommendations

### Observation 1:

TLC's Security Department is responsible for supervising lottery draw game draws. The purpose of Security Department staff involvement in the process is to enhance the security, integrity, honesty, and fairness of the processes. Security Department staff is required to observe a minimum number of game draws per week to provide independent assurance that procedures are being followed. We noted the following:

1. Although Security Department staff does observe game draws, they do not have written checklists to document their activities and compliance with the requirement.
2. Security Department staff complete and maintain a Daily Observation Report which identifies procedural variances or other occurrences observed during the drawing process exceptions noted.
3. Checklist used by the LDS and Independent Auditors contain the steps that should be completed and contains signature blocks for staff confirmation that the processes were completed.

### Recommendations:

Evidence of the Security Department's supervision and observation activities should be enhanced through implementing the following:

1. Create a checklist to enhance the current Draw Game Drawings Supervision procedure (LO-SE-002) which documents the processes that Security Department staff is required to observe and sign that they have completed the observations. The checklist should also contain:
  - a. Time of security personnel arrival at the drawings studio.
  - b. Number of persons in the drawings studio.
  - c. Notation area for any observed inconsistencies with procedures or other occurrences of note during the drawing process.

### Management Response:

#### Management Response:

Management concurs with the recommendation and anticipates a checklist implementation date of July 31, 2016.