

TEXAS LOTTERY COMMISSION

Lottery Security Study

September 1, 2006 through August 31, 2008
(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

The Commissioners
Texas Lottery Commission:

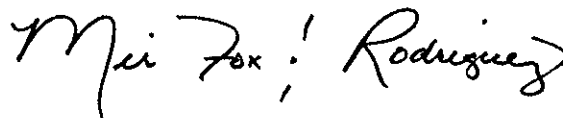
We have examined and evaluated management's assertion that the Texas Lottery Commission (the Texas Lottery) provided effective security, including computer security, systems security and all aspects of lottery security as described in the State Lottery Act, Texas Government Code Chapter 466, during the period of September 1, 2006 through August 31, 2008. Maintaining the effectiveness of these controls is the responsibility of management. Our responsibility is to express an opinion on management's assertion based upon our examination.

Our examination was conducted in accordance with standards applicable to attestation engagements contained in *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States and, accordingly, included (1) obtaining an understanding of the Texas Lottery's relevant security and processing integrity controls; (2) testing and evaluating the operating effectiveness of the controls; and (3) performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

In our opinion, management of the Texas Lottery Commission maintained, in all material respects, effective security, including computer security, systems security and all aspects of lottery security as described in the State Lottery Act, Texas Government Code Chapter 466, to ensure the integrity, honesty and fairness of the Texas Lottery's operations, gaming services, systems, instant and on-line ticket games and products during the period of September 1, 2006 through August 31, 2008 based on Standards established by *Generally Accepted Government Auditing Standards*.

In accordance with GAGAS, we have also issued a limited use confidential security related report on other matters dated December 19, 2008. The report is an integral part of an attestation engagement performed in accordance with these standards and should be considered in assessing the overall results of our examination.

Because of inherent limitations in controls, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that the validity of such conclusions may be altered because of changes made to the systems or controls, the failure to make needed changes to the systems or controls, or deterioration in the degree of effectiveness of the controls.



December 19, 2008

TEXAS LOTTERY COMMISSION

Notes to Report September 1, 2006 through August 31, 2008

1. Overview

The Texas Lottery Commission (Texas Lottery) was created in 1993. Its primary purpose is to administer the Texas lottery, which had been authorized by a constitutional amendment approved by the Texas voters in November 1991 (to generate revenue for the State of Texas), and which had been administered by the Office of the Comptroller of Public Accounts, 1991-1993. Prior to fiscal year 1998, the proceeds were allocated to the State of Texas General Revenue Fund. Since fiscal year 1998, all Texas Lottery proceeds from the Texas Lottery have been transferred to the Foundation School Fund to support public education in Texas. The Texas Lottery is required to exercise strict control over all lottery games conducted in Texas, to ensure integrity, security, honesty, and fairness.

The Texas Lottery has generated well over \$16 billion for the State of Texas since the first ticket was sold in 1992. The organization operates warehouses, regional offices and claim centers throughout Texas and is headquartered in Austin. Although a number of operational functions are maintained by the Texas Lottery, several key functions are contracted with various independent companies as described below:

- a) Lottery Operations and Services – provided by GTECH Corporation (GTECH), a wholly-owned subsidiary of Lottomatica S.p.A. headquartered in Providence, Rhode Island. As the lottery operator, GTECH provides a range of goods and services essential to the delivery of Texas Lottery gaming services. The GTECH services are generally provided in the following areas:
 - 1) Lottery Gaming System
 - 2) Lottery Management System
 - 3) Telecommunications Network
 - 4) Retailer Terminals
 - 5) Marketing Research, Promotions and Lottery Sales Representatives and Services
 - 6) Instant and On-Line Ticket Stock Warehousing, Packing and Distribution
 - 7) Ticket Order Processing and Telemarketing
 - 8) Hotline Support System
 - 9) In addition, GTECH provides certain facilities for primary and back-up data centers, a central instant ticket distribution warehouse, and a national call center.
- b) Instant Ticket Manufacturers – the primary and secondary instant ticket manufacturers are Scientific Games International located in Alpharetta, Georgia and Pollard Banknote Limited Partnership located in Ypsilanti, Michigan.
- c) Web Site Hosting Services – provided by SunGard Availability Services, LP (formerly Vericenter, Inc.) located in Houston, Texas.

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TEXAS LOTTERY COMMISSION

Notes to Report

2. Texas Lottery's Management's Assertion

Management asserts that the Texas Lottery Commission provided effective security, including computer security, systems security and all aspects of lottery security for the period from September 1, 2006 through August 31, 2008 as described in the State Lottery Act, Texas Government Code Chapter 466, which includes but is not limited to:

- a) lottery personnel security;
- b) sales agent security;
- c) lottery operator and vendor security;
- d) security against ticket counterfeiting and alteration and other means of fraudulent winning;
- e) security of lottery drawings;
- f) lottery computer, data communications, database, and system security;
- g) lottery premises and warehouse security;
- h) security of distribution of tickets;
- i) security of ticket validation and payment procedures;
- j) security involving unclaimed prizes;
- k) security aspects of each lottery game;
- l) security against the deliberate placement of winning tickets in lottery games that involve preprinted winning tickets by persons involved in the production, storage, transportation, or distribution of tickets;
- m) other security aspects of lottery operations
 - 1) Texas Lottery Website
 - 2) Other security aspects based on risks

3. Separate Limited Use Report

Certain computer system related information of a confidential and sensitive nature has been omitted from this report and included in a separate limited use report that has been distributed only to those parties within the Texas Lottery Commission who are responsible for acting on such information. This limited use report includes recommendations for certain potential improvements to the security of the Texas Lottery Commission's computer systems and the related policies and procedures to enhance the integrity of the internal control framework.