



Texas Lottery Commission

**Public Report of the
2004 Biennial Security Review**

January 7, 2005



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Overall Evaluation of Lottery Security

Jefferson Wells did not identify any issues that would materially impact the integrity and overall security of the Texas Lottery's operations, gaming services, and instant and on-line ticket productions.

The corresponding confidential report contains recommendations for consideration by both management and the Texas Lottery Commission. Recommendations in that report address lottery operations, information technology, and the recently implemented reorganization of the Texas Lottery Commission.

It is the responsibility of Texas Lottery management to evaluate the costs and related benefits of implementing these recommendations. Jefferson Wells does not advocate the implementation of recommendations that cannot be cost justified.

Reorganization of the Texas Lottery Commission

The Texas Lottery underwent a major reorganization effective November 19, 2004. This reorganization included a reduction in force that may have impacted some security functions. These changes are currently underway and completion is expected in the first half of 2005.

It is not possible to determine the full impact of the organizational changes at this time. We recommend the Texas Lottery Commission conduct an independent post-implementation audit approximately 180 days from the reorganization date. This will help ensure that an effective reorganization is satisfactorily implemented, and that appropriate security of the lottery was maintained.

SAS 70 Review

Jefferson Wells performed a review of the July 2004, *GTECH Texas Operations Report on Controls Placed in Operation and Tests of Operating Effectiveness*. We determined the current status of specific issues by interviewing appropriate personnel, reviewing documentation, and observing key controls. Significant results of our review are documented in the confidential report.

2002 Biennial Audit Review

Jefferson Wells performed a review on the recommendations made in the 2002 Security Review in conjunction with performing this year's security review. We determined the current status of recommendations by interviewing appropriate personnel, reviewing documentation, and observing key controls. Significant results of our review are documented in the confidential report.

Engagement Objectives and Approach

Jefferson Wells completed a review and evaluation of security related to computer systems and business operations for the lottery games of the Texas Lottery Commission as required by Texas State Lottery Act (§ 466.020(e), 1-13). The engagement was performed between Nov 15, 2004, and January 7, 2005. The scope and requirements for the review were defined as per Contract for Security Review Services # 05-9150, between the Texas Lottery Commission and Jefferson Wells.

The review's overall objective was to perform an assessment of the security measures established by management to support the integrity and security of the Texas Lottery's operations, gaming services, and instant and on-line ticket productions.

The security review was performed at the Texas Lottery's headquarters; the Texas Lottery's operator, GTECH; and the Texas Lottery's primary instant ticket manufacturer, Scientific Games International (SGI, Scientific Games).

To accomplish these objectives Jefferson Wells' personnel:

- Met with Texas Lottery management to gain an understanding of the critical Texas Lottery processes;
- Interviewed key Texas Lottery and vendor personnel;
- Reviewed available documentation of procedures, standards and other evidential matter;
- Identified high-risk areas based on impact and likelihood of a control breakdown or a non-existent control;
- Observed the existence and effectiveness of the controls and processes in place to meet the objectives delineated above; and
- Identified vulnerabilities associated with weaknesses in the control environment.

Our approach was not designed to specifically detect illegalities, fraudulent acts, errors or other irregularities. Our procedures were designed to test high-risk areas based on the scope of the contract and may not detect every security weakness. Jefferson Wells did not attempt to corrupt or tamper with any Texas Lottery systems or information.

The scope of our review follows the order of the Texas State Lottery Act, § 466.020(e), 1-13. The contents of that section of the Lottery Act are included in this report under Appendix I.

Jefferson Wells is not a public accounting firm and does not provide attestation services or otherwise report on financial statements.

Appendix I

Texas State Lottery Act, Section § 466.020(e) – (f)

(e) At least once every two years, the executive director shall employ an independent firm that is experienced in security, including computer security and systems security, to conduct a comprehensive study of all aspects of lottery security, including:

- (1) lottery personnel security;
- (2) sales agent security;
- (3) lottery operator and vendor security;
- (4) security against ticket counterfeiting and alteration and other means of fraudulent winning;
- (5) security of lottery drawings;
- (6) lottery computer, data communications, database, and systems security;
- (7) lottery premises and warehouse security;
- (8) security of distribution of tickets;
- (9) security of validation and payment procedures;
- (10) security involving unclaimed prizes;
- (11) security aspects of each lottery game;
- (12) 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; and
- (13) other security aspects of lottery operations.

(f) The executive director shall provide the commission with a complete report of the security study conducted under Subsection (e). The commission shall provide the governor and the legislature, before the convening of each regular legislative session, with a summary of the security study that shows the overall evaluation of the lottery's security.