



## TEXAS LOTTERY COMMISSION FY2017 INTERNAL AUDIT PLAN



As Prepared by  
McConnell & Jones LLP



**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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October 13, 2016

The Honorable Greg Abbott, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the FY2017 Internal Audit Plan for the Texas Lottery Commission (TLC) approved by TLC's Commissioners on October 13, 2016. The annual audit plan will enable the TLC to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. McConnell & Jones LLP (MJ) will execute this annual audit plan in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Darlene Brown at 713.968.1617 or Commissioner J. Winston Krause at 512.477.6707 if you should have any questions about this audit plan.

Sincerely,

Darlene Brown, CIA, CFE  
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## **1.0 COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET**

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, MJ will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Lottery Commission's (TLC) Executive Director who will ensure the information is posted to the TLC's website.

## **2.0 PURPOSE**

The purpose of this report is to communicate the annual risk-based audit plan as approved by the Texas Lottery Commission Commissioners on October 13, 2016, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan, and the communication of audit results and any significant interim changes to the annual audit plan.

The annual audit plan was developed based on a prioritization of the audit universe, updating the prior years' risk assessment, input from the TLC leadership team and Commissioners and guidance provided by the State Auditor's Office (SAO). Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk rating.

## **3.0 RISK ASSESSMENT**

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of the TLC leadership team and Commissioners. Our assessment evaluated risk exposures relating to the TLC's governance, operations, and information systems regarding the reliability and integrity of financial and



operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, policies and procedures, and contracts.

The types of risk exposure relevant to the TLC are:

- *Financial Exposure:* Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure:* Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
  - Recent changes in key personnel
  - Changing economic conditions
  - Time elapsed since last audit
  - Pressures on management to meet objectives
  - Past audit findings and quality of internal control
- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure:* A reputational exposures exists whenever an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

MJ discussed the risk exposures with the TLC Commissioners and leadership team. We then updated the annual audit plan based upon current risks facing TLC operations.

The State Auditor's Office (SAO) annual report guidelines included the requirement to indicate which projects in the audit plan address certain items described below.

State Auditor's Office Requirement	FY2017 Internal Audit Plan Activity
Benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.	Not included. Will be included in the FY2018 audit plan.
Contract management and other requirements of Senate Bill 20 (84th Legislature)	Not included. Audit was conducted in FY2015.

Risks rated as high that are not included in the fiscal year 2017 audit plan include the following:

- Investments – these assets are managed by the state's Treasury and are outside of the agency's control.





## 4.0 FY2017 ANNUAL AUDIT PLAN

MJ will conduct twelve scheduled audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2018 annual audit plan and prepare the fiscal year 2017 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,274 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

**Fiscal Year 2017 Annual Audit Plan Activities**

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Scratch Ticket Warehouse Receiving Controls	Low	September - November 2016	119
2	Scratch Ticket Pack Reconstruction	Medium	September - November 2016	180
3	CBOD Audit Processes	Request	October – December 2016	300
4	Enforcement - Background Check and Investigation Processes	High	October - December 2016	282
5	Retailer Management	High	October - December 2016	300
6	Fraud Awareness Training	Low	January 2017	36
7	Time and Attendance	Medium	February 2017 - March 2017	118
8	Second Chance Drawing Process	Medium	February 2017 - April 2017	200
9	Crisis Management Plan	Low	March 2017 - April 2017	84
10	Active Directory Audit	Medium	March 2017 - May 2017	226
11	Jackpot Estimation System	Low	June 2017	140
12	Scratch Ticket Working Paper Workflow System	Low	June 2017	92
13	Follow-Up On Prior Audit Findings	Compliance	On-Going	37
14	Management of Fraud/Complaint Hotlines Lines	Compliance	On-Going	8
15	External Audit / Review Assistance	Compliance	On-Going	10
16	Update Risk Assessment & Develop 2018 Audit Plan	Compliance	July - August 2017	73



Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
17	Annual Audit Report	Compliance	August 2017	9
18	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	60
<b>Total</b>				<b>2,274</b>

*Proposed audits will focus on internal controls and business processes*

## 5.0 SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TLC executive management and present these changes to the TLC's Commissioners for review and approval. Notification of significant changes to the internal audit plan approved by the Commissioners will be submitted to the State Auditor's Office.

This annual audit plan was presented to the Commissioners and approved on October 13, 2016.

  
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J. Winston Krause, Chairman