



TEXAS LOTTERY COMMISSION

Internal Audit Services

AN INTERNAL AUDIT OF

Drawing Studio Processes and Controls

Report No. 22-008

October 04, 2022

DRAFT



McConnell Jones
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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.

Audit Report Highlights

Drawing Studio Processes and Controls Audit – Texas Lottery Commission

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission (TLC) performed this internal audit as part of the approved FY 2022 Annual Internal Audit Plan.

Audit Objectives and Scope

MJ assessed the Texas Lottery Commission's (TLC) drawing studio processes and management controls in place to maintain public trust by protecting and ensuring the security and integrity of all drawings.

The audit scope period was August through September 2022.

Audit Focus

To evaluate the internal controls and processes in place related to the new location of the Drawing Studio. Specifically, we reviewed:

- Drawing Procedures
- Physical Security
- Move Procedures
- Staffing and Turnover

Audit Conclusions

TLC management controls in place over the drawing studio are effective in providing reasonable assurance that the security and integrity of all drawings is maintained. Our review of the controls related to drawing studio procedures, move procedures, and staffing processes are considered best practice.

One finding was noted when reviewing physical security with regards to badge access logs. Additionally, we identified four (4) opportunities for improvement to enhance current physical security policies and procedures by placing a security camera in the hallway outside of the drawing studio, provide a physical key to the studio to be used if the badging system was disabled, update the Daily Draw Checklist to include notation of visitors, e.g., internal auditors, to the studio, and prevent USB devices, including iPhones, from automatically running programs, applications, and other executables when plugged into computers in the drawing studio.

Internal Control Rating

Best Practice Draw Processes with Generally Effective Internal Controls Overall.

Drawing Studio Location

It is important to note that TLC moved their operations from a leased building which they were the only tenants and had full control over physical security and infrastructure. Their new location is in a state-owned building that is still under construction and managed by the Texas Facilities Commission (TFC). Because of this, there are many impacts to the drawing studio operations, including mission critical stability of internet and power to ensure game drawings occur on-time.

What Did We recommend?

1. TLC staff should work with Texas Facilities Commission to implement a formal process to either have their own designated access to the badge management system or receive weekly access logs for review. In doing so, TLC can better identify any unauthorized attempts of physical access to the drawing studio.

Number of Findings/ Opportunities by Risk Rating

Category	High	Medium	Low	Total
Findings	0	1	0	1
Improvement Opportunities	0	0	2	2



We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

Introduction



McConnell & Jones LLP (MJ) performed an internal audit of the Texas Lottery Commission Drawing Studio.

We performed this audit as part of the approved FY 2022 Annual Internal Audit Plan. This audit was conducted 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 accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Objective, Conclusion, and Internal Control Rating



*This audit identified findings that resulted in an overall internal control rating of **Best Practice Processes** with **Effective Internal Controls**. **Exhibit 1** describes the internal control rating.*

The purpose of this audit was to assess management's controls and business processes in place to ensure:

1. There is a formalized drawing procedure in place.
2. Physical security risks were addressed in the new Drawing Studio.
3. All assets were accounted for when moving to the new Drawing Studio.
4. Staff training and scheduling procedures are in place.

As such we focused on the following processes:

1. Drawing Procedures
2. Physical Security
3. Move Procedures
4. Staffing and Turnover

Finding vs Improvement Opportunity

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation.

We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

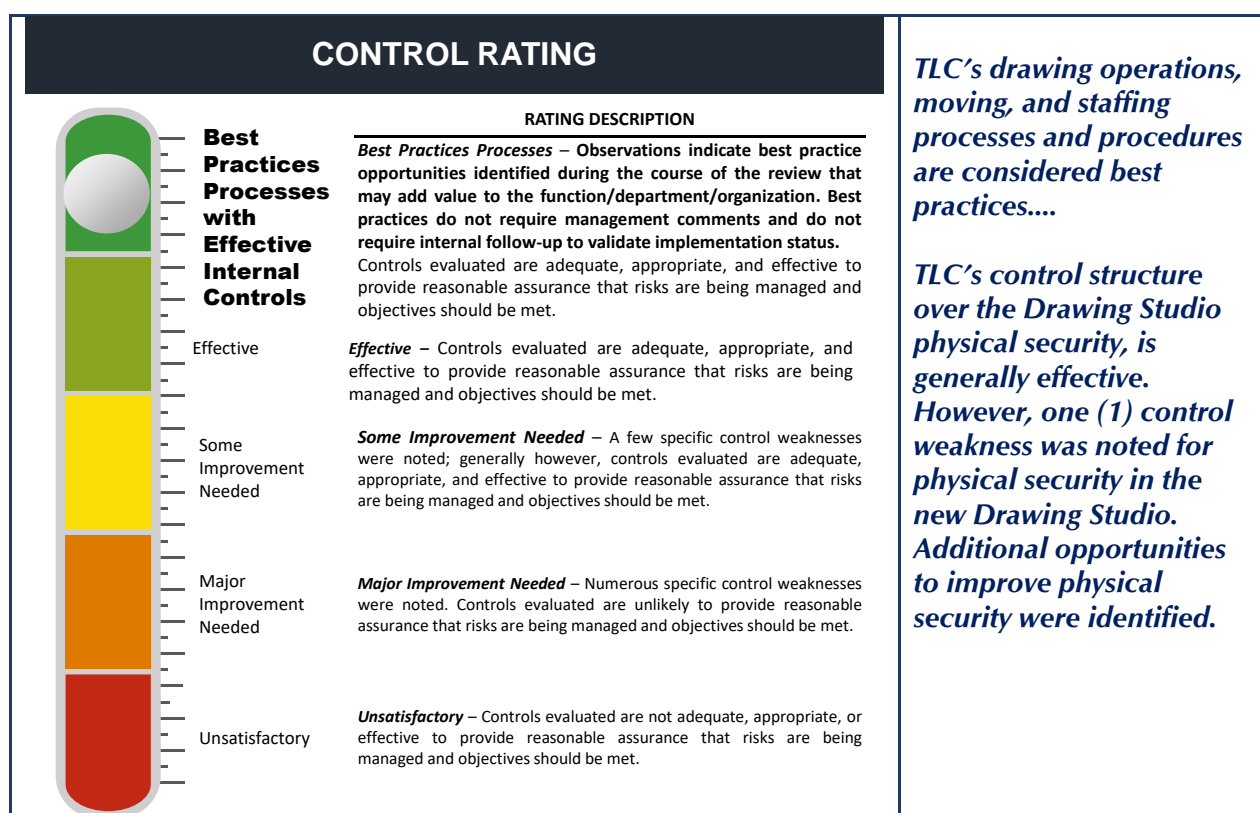


Exhibit 1: Internal control rating description.

TLC moved their operations from a leased building which they were the only tenants and had full control over physical security and infrastructure. Their new location is in a state-owned building that is still under construction and managed by the Texas Facilities Commission. Because of this, there are many impacts to the drawing studio operations, including mission critical stability of internet and power to ensure game drawings occur on-time. This report outlines some of the physical security enhancements that should be made by the TFC to ensure that the draw game studio is better secured and monitored. Internal audit will conduct an in-depth review of the new facilities and impact on lottery operation in FY 2023.

Observation and Risk Rating Summary



Exhibit 2 provides a summary of our audit observations. See the business risk section of this report for a discussion of all issues identified, recommendations, and management responses.

Business Objective	Internal Control Rating	Control Assessment / Findings	Recommendations
1. Game Drawing Procedures	Best Practices	No findings noted.	No recommendations are made.
2. Physical Security	Generally Effective	Detailed Finding #1: 1. There is no formal process in place for the Drawings personnel to generate access reports	Detailed Finding #1: 1. TLC staff should work with Texas Facilities Commission to implement a formal process to either have their own designated access to

Business Objective	Internal Control Rating	Control Assessment / Findings	Recommendations
		<p>or periodically review reports or logs of timestamped badge access to the drawing studio. As of this audit, the Drawings Supervisor has not received a badging report to the drawing studio from the Texas Facilities Commission since moving into the new location controlled by the TFC although it has been requested.</p> <p>Opportunities for Improvement to Enhance Security:</p> <ol style="list-style-type: none"> 1. There is no security camera in the hallway outside the drawing studio that is facing the main entrance. 2. Drawing studio staff do not have a physical key to enter the drawing studio. If the badging system were to break down or become disabled, drawing studio personnel would be unable to enter the drawing studio. 	<p>the badge management system or receive weekly access logs for review. In doing so, TLC can better identify any unauthorized attempts of physical access to the drawing studio.</p> <p>Opportunity Recommendations for Improving Security:</p> <ol style="list-style-type: none"> 1. TLC should work with TFC to determine the feasibility of placing a camera in the hallway outside the drawing studio facing the main entrance. In doing so, TLC could be made aware of anybody attempting to tamper with the door. 2. TFC should provide at least one physical key to the Drawings Supervisor (or another individual in management) that would allow access to the drawing studio in the event that the badging system is down. Any physical keys that are distributed should be tagged with an ID number, documented as assigned to an individual, and periodically audited.
3. Move Procedures for Securing Game Drawing Equipment and Ball Sets	Best Practices	No findings noted.	No recommendations are made.
4. Draw Studio Staffing Process	Best Practices	No findings noted.	No recommendations are made.

Exhibit 2: Findings and recommendations for business objectives.

Detailed Findings and Management Response



This section of our report provides a discussion on the reportable findings we noted during the audit, our recommendations, and management's response.

Business Objective #1: Game Drawing Procedures

Risk Ranking: **Best Practices**

Observations #1

We noted the following processes in place when observing the game drawing operations. These are best practices processes that ensure sound internal controls.

- Prior to the testing phase of the game drawing process, drawing personnel open each ball set case and inspect the balls one by one for any tampering or damage. Once ball sets are confirmed to be ready for testing, they are placed back in their respective ball set cases and resealed with a yellow seal.
- Throughout testing and rehearsals of the game drawing process, there are two individuals at two separate workstations that record the results of testing and auditing simultaneously. Personnel ensure that everyone present agrees with the results of testing and auditing before moving on to the next step in the process.
- Four test runs and two rehearsals of the game drawing are conducted prior to the live broadcast to ensure that all systems and equipment are functioning as expected. Machines are marked with a slip of paper that says either 'test' and/or 'rehearsal' throughout this process.
- Prior to rehearsals, drawing studio personnel inspect all camera angles of the broadcast and ensure that shots are saved as part of the preset configuration. Additionally, personnel ensure that the red lights that indicate there is a broadcasting issue are functioning.
- After the live drawing, balls are resealed in their respective ball set cases with a yellow seal and returned to the vault. When the independent auditor is opening the vault, they cover the combination lock with a piece of paper and all individuals present in the vault room are required to stand 15-20 feet back behind a yellow line on the floor.
- Texas Lottery maintains a full-time statistician on staff who receives live data from drawings and runs monthly reports to ensure that drawings are truly random.
- Drawing studio personnel follow a documented Automated Ball Set Selection Process (ABSSP) when determining which ball sets to use for daily drawings.
- All drawing machines are turned on and run every Saturday to ensure that they are functioning properly.
- Vaults and ball set cases in the drawing studio are zip tied by a yellow seal (or tag) that displays a unique ID number. ID numbers are recorded each time a seal is applied and broken.

Recommendations #1

No recommendations are made.

Managements Response #1

None required.

Business Objective #2: Physical Security

Risk Ranking: **Generally Effective**

Observations #2

The Texas Facilities Commission manages the state-owned building where TLC is now located. Because of this, TLC must work through TFC for needed security, including granting, controlling, and monitoring access to the facilities. Additionally, it was noted that the internet and power instability has placed the draw games in jeopardy of being performed on schedule in a few instances already.

Finding(s):

- (Medium) There is no formal process in place for drawing studio personnel to access the badging system and generate access reports or receive access reports or logs of time-stamped badge access to the drawing studio each week. The Drawings Supervisor has not received a badging report since moving into the facilities.

Opportunities for Improvement:

- There is no security camera in the hallway outside the drawing studio that is facing the main entrance.
- Drawing studio staff do not have a physical key to enter the drawing studio. If the badging system were to break down or become disabled, drawing studio personnel would be unable to enter the drawing studio.

Recommendations #2

Finding Recommendation(s):

1. TLC staff should work with Texas Facilities Commission to implement a formal process to either have their own designated access to the badge management system or receive weekly access logs for review. In doing so, TLC can better identify any unauthorized attempts of physical access to the drawing studio.

Managements Response #2

Management agrees with the recommendation and will work with the Texas Facilities Commission for implementation.

Opportunity for Improvement Recommendation(s):

- TLC should work with TFC to determine the feasibility of placing a camera in the hallway outside the drawing studio facing the main entrance. In doing so, TLC could be made aware of anybody attempting to tamper with the door.
- TFC should provide at least one physical key to the Drawings Supervisor (or another individual in management) that would allow access to the drawing studio in the event that the badging system is down. Any physical keys that are distributed should be tagged with an ID number, documented as assigned to an individual, and periodically audited.

Managements Response

Management response is not required for these improvement opportunities.

Business Objective #3: Drawing Studio Move Procedures

Risk Ranking: **Best Practices**

Observations #3

TLC moved their drawing studio operations to the new state-owned facility. This move required the drawing equipment and ball sets to be moved in a secured manner to prevent tampering. We noted that TLC took all measures necessary to ensure that the move was planned and executed with strict security measures in place.

- TLC drawing studio staff observed drawing machines and other assets being crated, locked, and placed in a locked truck for secure transportation.
- During transportation, drawing studio personnel followed behind the moving trucks while on the road. In doing so, personnel ensured that trucks transported equipment directly from the old drawing studio to the new drawing studio without interference or tampering.
- When removing the drawing equipment and ball sets from trucks after transport, Texas Lottery ensured that there were personnel both in front of and behind each truck and that a full field of view around each truck was maintained.
- Upon arrival at the new vault, all assets were inventoried with the independent audit firms present for observation.

Recommendations #3

No recommendations are made.

Managements Response #3

None required.

Business Objective #4: Staffing

Risk Ranking: **Best Practices**

Observations #4

TLC executes two-three shifts of secured game drawings each day, including holidays. This requires qualified and trained staff to be physically present in the drawing studio for the operations. TLC has implemented the following practices to ensure disruption to the draw game schedule to not occur.

- Potential new hires are assigned to a Texas Lottery investigator who performs a background check and a detailed review of work history prior to recommending employment.
- To mitigate staff shortages, draw coordinators are trained to cover all draw game roles if needed.
- New drawing studio personnel undergo on-air training and draw manager training for the first six months of employment.

Recommendations #4

No recommendations are made.

Managements Response #4

None is required.

APPENDIX A - BACKGROUND



This section of the report provides an overview of the Texas Lottery Commission Drawing Studio Operations.

In July 2022, the Texas Lottery Commission executed a move of equipment and personnel from the prior drawing studio to the newly built drawing studio housed in the George HW Bush Building in Austin, Texas. The new drawing studio is outfitted with office space for personnel, as well as a broadcast room located directly above the studio on the second floor that transmits the live drawings to the public. Physical security at the new drawing studio supports numerous best practices, including physical seals that are placed on entryways and voided when broken and a door alarm that rings whenever an external door is opened to the drawing studio. All existing drawing processes were carried forward to the new location, and personnel undergo extensive training to effectively perform procedures.

Since the Texas Lottery Commission's first game drawing, an independent drawing studio auditor has certified each draw game performed. An overview of the independent auditor's responsibilities is shown in **Figure 1**. We noted that the Texas Lottery Commission has well established and documented internal controls for the lottery games drawing process, some including best practices, such as ensuring that all personnel are standing five to six feet apart when examining the ball sets prior to test runs.



Figure 1 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 drawing studio auditor 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 certify the draw results and sign off on the checklist. These checklists are used for all draw games.

APPENDIX B - BUSINESS OBJECTIVES, RISKS, FINDINGS AND MANAGEMENT RESPONSES



This section of the report provides a summary of the function's key business objectives, primary business risks, management controls in place and the respective internal control assessment. Each table also includes our recommendations to address deficiencies noted, or opportunities to enhance current controls.

1 BUSINESS OBJECTIVE: DRAWING STUDIO PROCEDURES

Business Objective	To implement and maintain processes and procedures in the drawing studio that contribute to the overall effectiveness, security, and credibility of the Texas Lottery draw games.
Business Risk	<ul style="list-style-type: none"> Processes and procedures in the drawing studio may be inadequate and ineffective, damaging the reputation and credibility of Texas Lottery draw games.
Management Controls in Place	<ul style="list-style-type: none"> Prior to the testing phase of the drawing process, drawing studio personnel open each ball set case and inspect the balls one by one for any tampering or damage. Once ball sets are confirmed to be ready for testing, they are placed back in their respective ball set cases and resealed with a yellow seal. Throughout testing and rehearsals of the drawing process, there are two individuals at two separate workstations that record the results of testing and auditing simultaneously. Personnel ensure that everyone present agrees with the results of testing and auditing before moving on to the next step in the process. Four test runs and two rehearsals of the drawing are conducted prior to the live broadcast to ensure that all systems and equipment are functioning as expected. Machines are marked with a slip of paper that says either 'test' and/or 'rehearsal' throughout this process. Prior to rehearsals, drawing studio personnel inspect all camera angles of the broadcast and ensure that shots are saved as part of the preset configuration. Additionally, personnel ensure that the red lights that indicate there is a broadcasting issue are functioning. The IGT drawing operator is verified by drawing studio personnel prior to each game draw. Drawing studio personnel carry work iPhones with them as a backup to contact IGT if the regular phone systems are nonoperational. At the end of each month, Texas Lottery receives a recording of that month's broadcasts from the broadcasting company. After the live game drawing, ball sets are resealed in their respective cases with a yellow seal and returned to the vault. When the independent auditor is opening the vault, they cover the combination lock with a piece of paper and all individuals present in the vault room are required to stand 15-20 feet back behind a yellow line on the floor. Texas Lottery maintains a full-time statistician on staff who receives live data from game drawings and runs monthly reports to ensure that drawings are truly random. Drawing studio personnel follow a documented Automated Ball Set Selection Process (ABSSP) when determining which ball sets to use for daily drawings. All drawing machines are turned on and run every Saturday to ensure that they are functioning properly. Drawing machines on the drawing studio floor are rotated with duplicate machines on a monthly basis.

1 BUSINESS OBJECTIVE: DRAWING STUDIO PROCEDURES

Control Tests	<ul style="list-style-type: none"> ➤ Reviewed Texas Lottery Commission documented policies and procedures relating to the drawing studio. ➤ Inquired of the Drawing Supervisor to gain a greater understanding of drawing studio processes and procedures. ➤ Performed a physical walkthrough of the drawing studio. ➤ Observed a live daily game drawing in the drawing studio.
Control Assessment Rating	➤ Best Practice Processes
Control Assessment Findings	➤ None.
Recommended Actions to Address Findings	➤ No recommendations are made.
Opportunity(ies) for Improvement	➤ None.
Recommended Actions to Address Opportunity(ies) for Improvement	➤ No recommendations are made.

2 BUSINESS OBJECTIVE: PHYSICAL SECURITY

Business Objective	To implement and maintain physical security procedures and controls to ensure drawing studio equipment is protected from tampering and theft.
Business Risk	➤ Physical security procedures and controls may be inadequate and unable to ensure that drawing studio equipment is protected from tampering and theft.
Management Controls in Place	<ul style="list-style-type: none"> ➤ When drawing studio personnel leave the drawing studio, all internal and external doors in the drawing studio are sealed with blue tape that displays as 'voided' when the door is opened. A logbook of voided blue seals and their associated ID numbers is maintained each time a door needs to be opened for a new game drawing session. ➤ Vaults and ball set cases in the drawing studio are zip tied by a yellow seal (or tag) that displays a unique ID number. ID numbers are recorded each time a seal is applied and broken. ➤ Within the drawing studio, cameras are spaced out and angled to capture all entryways, exits, workspaces, machines, and the vault. Drawing studio personnel have the ability to view and playback footage captured by the security cameras. ➤ Security camera footage is saved on-site to a server that resides in a locked cabinet in the drawing studio. Drawing studio personnel do not have the keys to the cabinet. ➤ Whenever an external door to the drawing studio is opened, an alarm sounds to alert staff. ➤ The broadcasting room is locked from the outside when broadcasting operations are being conducted. ➤ An alarm is set in the vault each time a game drawing session has been completed and the ball sets have been returned.

2 BUSINESS OBJECTIVE: PHYSICAL SECURITY

	<ul style="list-style-type: none"> ➤ Pages of the seal logbooks are retained for four years once completed. ➤ All badge access to the drawing studio and the vault is logged, including both successful and unsuccessful attempts.
Control Tests	<ul style="list-style-type: none"> ➤ Reviewed Texas Lottery Commission documented policies and procedures relating to the drawing studio. ➤ Inquired of the drawing studio supervisor to gain a greater understanding of drawing studio processes and procedures. ➤ Performed a physical walkthrough of the drawing studio. ➤ Observed a live daily drawing session in the drawing studio. ➤ Observed and verified that the four safes on inventory were secured in the vault room. ➤ During the walkthrough, retrieved the voided blue seal that was used to secure the vault overnight and verified the ID number was recorded in the logbook. ➤ During the walkthrough, observed employees that were authorized for access to the drawing studio and vault successfully badge into both doors and verified the access was logged in the badging system. ➤ Auditors attempted to badge into the drawing studio and vault to ensure access was appropriately denied and confirmed that the unsuccessful attempts were logged in the badging system.
Control Assessment Rating	➤ Generally Effective
Control Assessment Findings	➤ (Medium) There is no formal process in place for drawing studio personnel access the badging system and generate access reports or receive access reports or logs of time-stamped badge access to the drawing studio each week. The Drawing Studio Supervisor has not received a badging report since moving into the facilities.
Recommended Actions to Address Findings	➤ Texas Lottery should work with Facilities to develop and implement a formal process for receiving weekly or monthly access logs for review. In doing so, TLC can better identify any unauthorized attempts of physical access to the drawing studio.
Opportunity(ies) for Improvement	<ul style="list-style-type: none"> ➤ (Low) There is no security camera in the hallway outside the drawing studio that is facing the main entrance. ➤ (Low) Drawing studio staff do not have a physical key to enter the drawing studio. If the badging system were to break down or become disabled, drawing studio personnel would be unable to enter the drawing studio.
Recommended Actions to Address Opportunity(ies) for Improvement	<ul style="list-style-type: none"> ➤ Texas Lottery should work with Facilities to determine the feasibility of placing a camera in the hallway outside the Drawing Studio facing the main entrance. In doing so, Texas Lottery could be made aware of anybody attempting to tamper with the door. ➤ TFC should provide at least one physical key to the Drawings Supervisor (or another individual in management) that would allow access to the drawing studio in the event that the badging system is down. Any physical keys that are distributed should be tagged with an ID number, documented as assigned to an individual, and periodically audited.

3 BUSINESS OBJECTIVE: DRAWING STUDIO MOVE PROCEDURES

Business Objective	To implement and maintain controls and processes to assure drawing studio equipment is secured during transportation between Texas Lottery offices, ensuring that tampering and theft does not occur.
Business Risk	<ul style="list-style-type: none"> ➤ Drawing studio equipment may not be secured during transportation between Texas Lottery offices, leading to potential tampering and theft.
Management Controls in Place	<ul style="list-style-type: none"> ➤ TLC drawing studio staff observed drawing machines and other assets being crated, locked, and placed in a locked truck for secure transportation. ➤ During transportation, drawing studio personnel followed behind the moving trucks while on the road. In doing so, personnel ensured that trucks transported equipment directly from the old drawing studio to the new drawing studio without interference or tampering. ➤ When removing the drawing equipment and ball sets from trucks after transport, Texas Lottery ensured that there were personnel both in front of and behind each truck and that a full field of view around each truck was maintained. ➤ Upon arrival at the new vault, all assets were inventoried with both audit firms present for observation.
Control Tests	<ul style="list-style-type: none"> ➤ Reviewed Texas Lottery Commission planning and execution documentation for the drawing studio move. ➤ Inquired of the Drawing Supervisor to gain a greater understanding of drawing studio move processes and procedures.
Control Assessment Rating	➤ Best Practice Processes
Control Assessment Findings	➤ None.
Recommended Actions to Address Findings	➤ No recommendations are made.
Opportunity(ies) for Improvement	➤ None.
Recommended Actions to Address Opportunity(ies) for Improvement	➤ No recommendations are made.

4 BUSINESS OBJECTIVE: DRAWING STUDIO STAFFING

Business Objective	To implement and maintain controls and processes to assure the drawing studio is appropriately staffed to perform game drawings as scheduled.
Business Risk	<ul style="list-style-type: none"> ➤ The drawing studio may not be appropriately staffed to perform game drawings as scheduled.
Management Controls in Place	<ul style="list-style-type: none"> ➤ Potential new hires are assigned to a Texas Lottery investigator who performs a background check and detailed review of the individual's work history prior to recommending employment.

4 BUSINESS OBJECTIVE: DRAWING STUDIO STAFFING

	<ul style="list-style-type: none"> ➤ To mitigate staff shortages, draw coordinators are trained to cover all draw game roles if needed. ➤ New drawing studio personnel undergo “on-air” training and draw manager training for the first six months of employment.
Control Tests	<ul style="list-style-type: none"> ➤ Reviewed Texas Lottery Commission documented policies and procedures relating to the drawing studio. ➤ Inquired of the Drawing Supervisor to gain a greater understanding of drawing studio processes and procedures related to hiring and training.
Control Assessment Rating	➤ Best Practice Processes
Control Assessment Findings	➤ None.
Recommended Actions to Address Findings	➤ No recommendations are made.
Opportunity(ies) for Improvement	➤ None.
Recommended Actions to Address Opportunity(ies) for Improvement	➤ No recommendations are made.