



Texas Lottery Commission

Internal Audit

An Internal Audit of

TLC's Copy Center Controls

November 8, 2018

Report #19-001

Prepared by:



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.



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 copy center monitoring processes and internal controls. For the purposes of this audit report copy center refers to the centralized function for printing, copying, binding and scanning documents. This includes individual documents, reports, letterhead stationary, flyers and banners.

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. This report summarizes the audit scope, objectives and our assessment of TLC's internal controls for copy center operations.

Objectives and Scope

Given the sensitivity and confidentiality of information handled through the copy center operations, it is imperative that internal controls are established and working as intended. Accordingly, we focused this audit on assessing internal controls in place to provide reasonable assurance that:

- ✓ Information and documents are properly handled and physically secured.
- ✓ Copy and printing jobs are processed in a controlled and timely manner.

- ✓ Copy and printing equipment/devices attached to TLC's network are protected against unauthorized access.
- ✓ Peripheral devices such as flash drives and hard drives cannot be attached to the copy center equipment to transfer TLC data stored on the equipment.
- ✓ Information stored electronically on copy equipment/devices is appropriately deleted/wiped clean on a regular basis.
- ✓ Hard drives are deleted/wiped clean and removed for proper disposal prior to copy equipment/device removal or replacement.
- ✓ Ensure accuracy of copy center contractor invoices according to the contract and purchase order.

We evaluated internal controls and business processes related to the copy center operations for the period of December 1, 2017 through August 31, 2018. 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

We determined that TLC's copy center operations are best practices and that controls over the copy center processes are effective and operating as intended.

Outsourcing the copy center operations provides enhanced internal controls as the number of copy machines that have printed documents awaiting retrieval and electronic data that is stored in equipment memory is significantly reduced. Additionally, fiscal and staff resources are used more effectively in the outsourced model. The agency is saving



money by not leasing, purchasing or maintaining copy equipment and agency staff are not required to spend time maintaining copy machines and clearing paper jams.

Figure 1 describes the internal control rating.

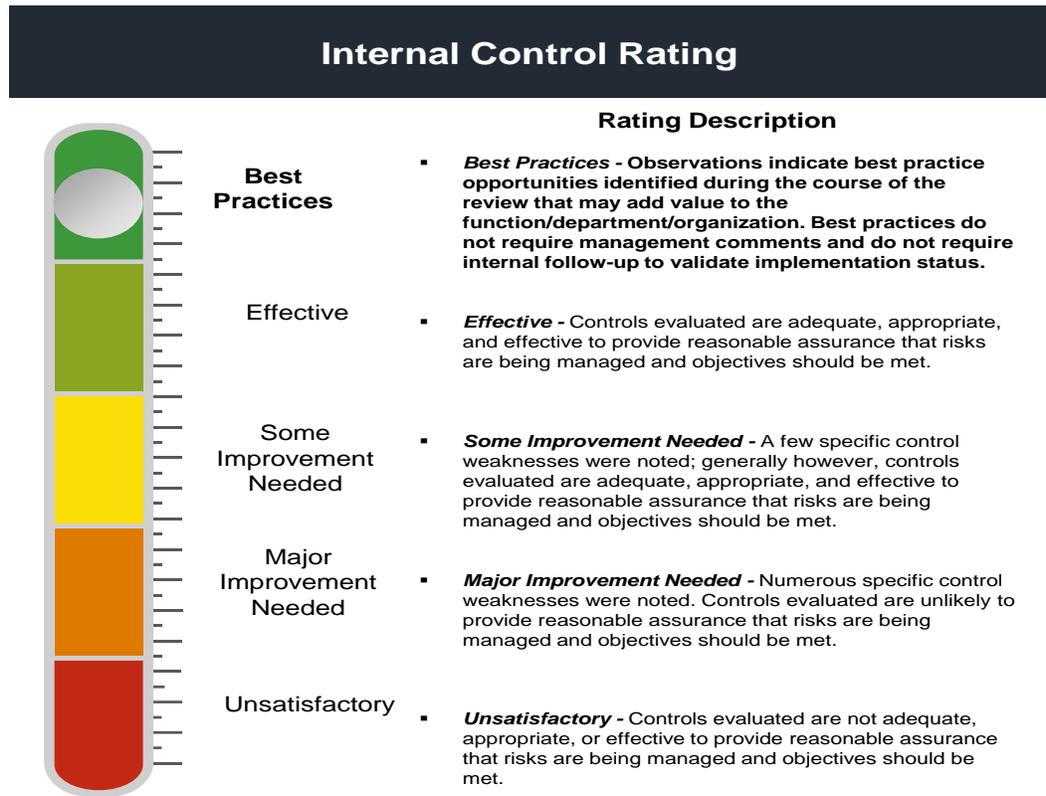


Figure 1 Internal control rating description.

Acknowledgement

We wish to thank all TLC and contractor 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 and responsiveness to our requests.

BACKGROUND

TLC outsources copy center operations to a third party vendor (contractor). The contractor dedicates three full time employees to managing TLC’s copy center operations. The contractor’s staff are responsible for all

functions within the copy center. Contractor staff and the technicians who service copy center equipment undergo background checks consistent with procedures for all TLC vendors and employees.



The contractor also provides the following services to TLC:

- ✓ Maintenance of copy machines located at TLC's claims centers and that are stationed at limited locations within TLC.
- ✓ Copier supplies, including toner and ink.

Outsourcing of copy center operations provides TLC employees an easy and convenient onsite full-service copy center.

TLC's Administration Division delegated oversight of the copy center operations to the Information Resources Division. TLC's Information Resources staff hold regular meetings with the contractor to discuss copy center operations and potential service or operational changes in addition to any challenges that either TLC or the contractor may be having. Additionally, the contractor provides TLC with operational reports each quarter. For each invoice provided by this contractor, the Office of Controller prepares the Interoffice Memorandum for Payment Approval which is routed to the divisions for payment approval.

The contractor's staff aid TLC employees by performing the following duties:

- ✓ Printing and copying impressions used for daily operations, meetings and trainings.

- ✓ Scanning documents into the agency's document repository for records retention purposes.
- ✓ Monitoring and servicing the 43 copy machines or printers located at the claims centers and TLC departments.

Copy center jobs are received by various methods of delivery, all containing requestors' name and other information.

- ✓ Direct delivery to copy center staff – Copy center staff complete an on-site copy request form when the job is delivered. The request form has a check box for the requestor to indicate whether the documentation is confidential. The request form indicates the requestors name, email address and telephone number.
- ✓ Emailed print request – Copy center staff receive the request by email. The email address indicates the individual requesting the print job.
- ✓ TLC staff initiate print to copy center device – Authorized TLC staff send documents directly to copy center printer by selecting the network printer. These documents include a cover sheet stating the TLC staff's user name.

Figure 2 illustrates the printing processes for copy center jobs.

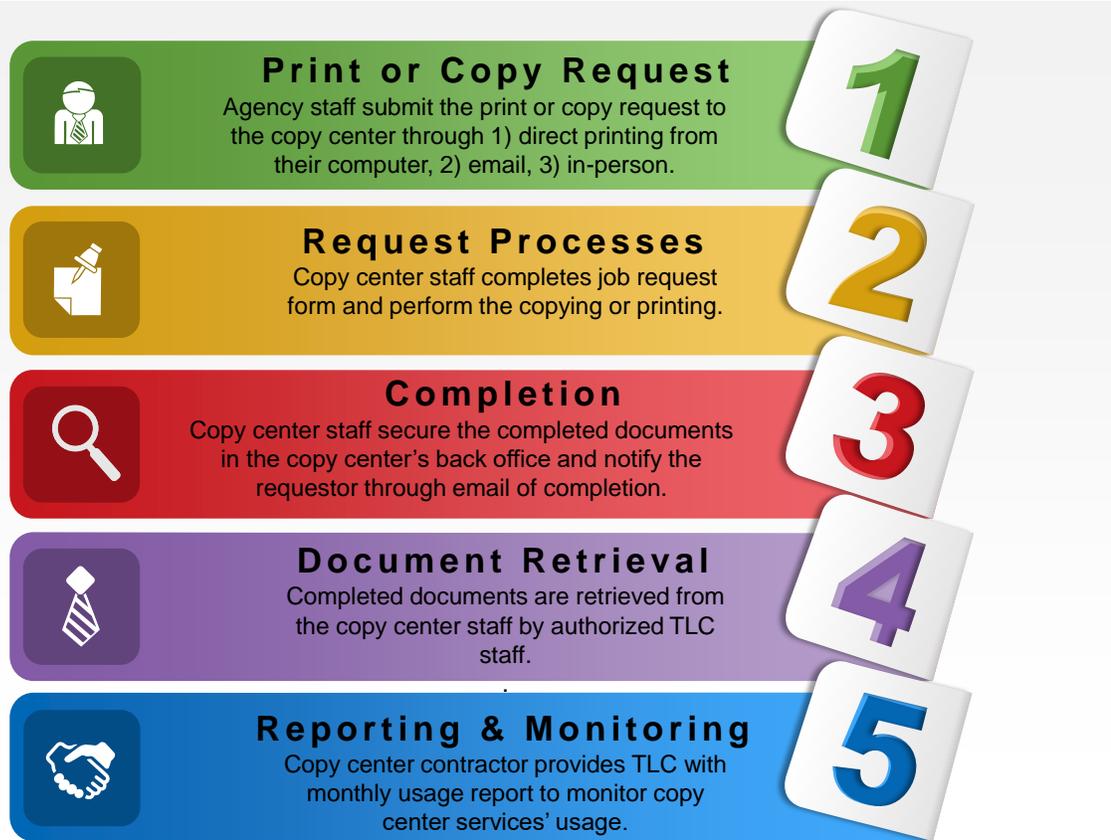


Figure 2: Copy center printing processes.

All TLC divisions, departments and claims centers utilize the copy center for services and have contracted copy or printer equipment within their departments, divisions, and/or field offices. The monthly contracted fees are allocated between Lottery and the Charitable Bingo Operations Division (CBOD). **Figure 3** provides a comparison of the FY 2019 second quarter cost allocation and usage. CBOD was allocated one percent of the cost yet used 24 percent of the services during FY 2019 second quarter. While this cost allocation is disproportionate compared to the usage, the agency made the business decision to offset CBOD's utilization costs due to CBOD's limited available funding.

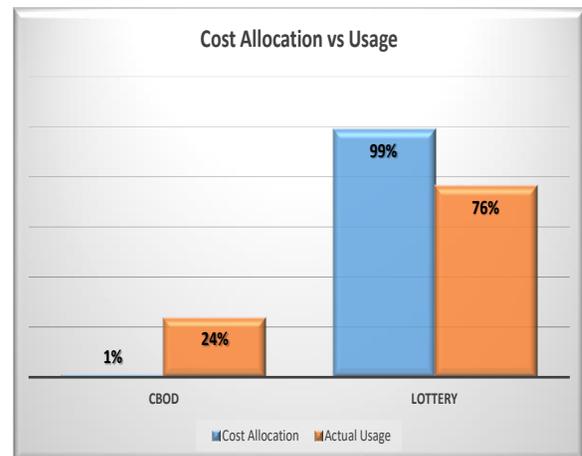


Figure 3: Actual cost allocation percentage vs actual usage percentage by CBOD and Lottery FY 2019 second quarter.

Lottery Operations is the largest function within the agency. Accordingly, their FY 2019



second quarter copy center impressions were the highest followed by CBOD. **Figure 4** shows the FY 2019 second quarter actual utilization by department which includes copy center, department, and field office devices.

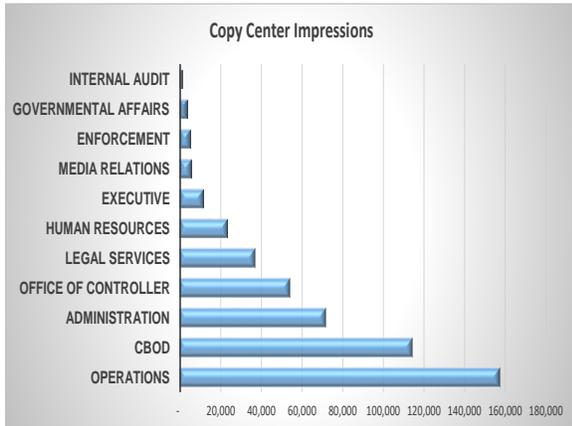


Figure 4 Copy Center impressions usage by department FY 2019 second quarter.

The current copy center services contract provides for TLC departments to utilize the contractor’s services for scanning documents into the agency’s document repository system at no additional charge to the agency. During our observations of the copy center operations we noted that TLC’s Lottery Operations Division utilizes this service while CBOD does not. Instead, designated CBOD staff scans their remittance room correspondence and check copies into the agency’s document repository system on a daily basis, oftentimes spending a minimum of two hours performing this activity.

We analyzed CBOD scans to the document repository system during FY 2018. CBOD experiences significant volume fluctuations on a

daily and monthly basis. However, the fluctuations correspond to licensee quarterly report filing periods. **Figure 5** provides an overview of CBOD’s average daily and monthly scanning activity.

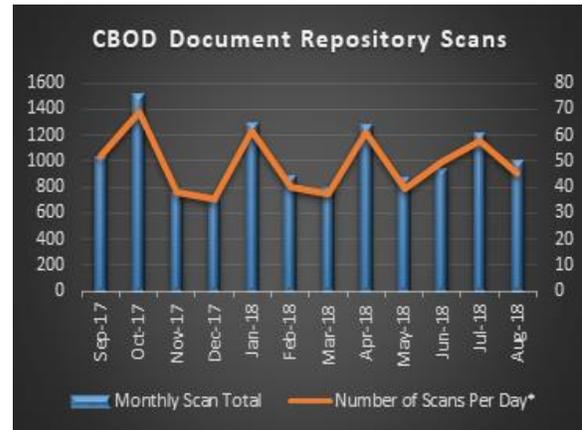


Figure 5 CBOD FY 2018 Document Repository Activity

*denotes average

Source: TLC Information Resources Document Repository Usage Report

We noted that CBOD could utilize copy center staff to perform their scanning function which would allow them to save an average of ten hours, 1.25 full days, of valuable staff time per week and not incur any additional costs to the agency. The CBOD director worked with TLC’s Information Resources and the contractor to update CBOD’s scanning procedures when we brought this to his attention. As of this report date, the revised scanning process was being tested and the written procedures have been updated to reflect the revised process.

TLC COPY CENTER BUSINESS OBJECTIVES AND RISKS

This section of the report provides a summary of the copy center operations’ business objectives, primary business risks, TLC’s internal controls in place and the

respective internal control assessment. TLC established internal controls in the form of policies, procedures, management review and monitoring processes. These internal



controls are effective and working as intended.

BUSINESS OBJECTIVE 1: Copy Center Customer Service and Internal Processes	
Business Objective	To ensure copy center jobs (consisting of copy, print, scan and service calls) are performed timely and in accordance with contracted standards.
Business Risk	<ul style="list-style-type: none"> ➤ Copy center staff may not respond to requests in a timely manner. ➤ Contractor staff may not be adequately trained and staffed to meet TLC’s needs and print volumes.
Management Controls	<ul style="list-style-type: none"> ➤ Contractor establishes internal procedures to ensure that the copy center operations are adequately staffed with trained individuals. ➤ Pending jobs that are not completed the day they are received are placed in the “new jobs” and “in progress” trays to be completed by 9:00 am the next business day.
Control Tests	<ul style="list-style-type: none"> ➤ Reviewed the contractor’s Site Observation Guide for On-Site Facilities Management at TLC. ➤ Reviewed the contractor’s Quarterly Business Review Reports for FY 2019 Q1 and Q2. ➤ Conducted interviews and copy center walk throughs. ➤ Observed copy center operations. ➤ Observed copy center email inbox and outbox contents.
Control Assessment	<p>Internal controls are effective.</p> <ul style="list-style-type: none"> ➤ Copy center staff receive job requests by direct printing, email and in-person. TLC staff are greeted by copy center staff upon entering the copy center. Copy center staff completes On-Site Copy Request Form for TLC staff. Copy center staff processes jobs as they are received and emails the requestor to notify them that the job is complete and ready for pickup.
Recommended Actions	None
Management Action Plan	None Required

BUSINESS OBJECTIVE 2: Physical Security of TLC Print Jobs

Business Objective	To ensure proper handling and physical security of data and documents.
Business Risk	➤ Data contained in printed documents may be confidential and could potentially be released to unauthorized individuals.



BUSINESS OBJECTIVE 2: Physical Security of TLC Print Jobs

Management Controls	<ul style="list-style-type: none"> ➤ Documents that are printed directly to copy center printers have the owners’ user name printed on the cover sheet. ➤ Copy center staff have a listing containing all user names by department as a guide to who is authorized to retrieve documents. ➤ Printed documents are retained in the copy center back office until being retrieved.
Control Tests	<ul style="list-style-type: none"> ➤ Conducted interviews and process walk throughs. ➤ Observed copy center operations. ➤ Performed audit testing. ➤ Analyzed applicable written procedures.
Control Assessment	<p>Internal controls are effective.</p> <ul style="list-style-type: none"> ➤ Copy center staff retain all printed documents behind the counter and physically hand them to authorized TLC staff.
Recommended Actions	None
Management Action Plan	None Required

BUSINESS OBJECTIVE 3: Data Security and Hard Drive Disposal

Business Objective	To ensure security of the contractor’s devices on TLC’s network and disposal of hard drive or hard drive’s data prior to the device being removed from TLC.
Business Risk	<ul style="list-style-type: none"> ➤ TLC’s network could be compromised through the contractor’s devices and TLC computers accessing files. ➤ TLC data could be retained on hardware when copy equipment is removed from TLC.
Management Controls	<ul style="list-style-type: none"> ➤ USB ports on TLC computers operated by the contractor are deactivated. ➤ USB ports on the contractor’s copy machines are limited to printing documents only. ➤ The contractor’s equipment/devices are undiscoverable by wifi at TLC headquarters. ➤ Computers operated by the contractor’s staff are password protected. ➤ The contractor’s equipment/devices require swipe card access or passwords to operate.
Control Tests	<ul style="list-style-type: none"> ➤ Conducted interviews and process walk throughs. ➤ Observed copy center operations. ➤ Reviewed written procedures.



BUSINESS OBJECTIVE 3: Data Security and Hard Drive Disposal

	<ul style="list-style-type: none"> ➤ Performed audit testing.
Control Assessment	<p>Internal controls are effective.</p> <ul style="list-style-type: none"> ➤ The contractor’s equipment/devices and TLC computers are physically protected. The network is continuously monitored by Information Resources staff to identify potential unauthorized access. Additionally, the agency has a procedure to wipe hard drives before copy equipment/devices are removed and returned to vendors.
Recommended Actions	None
Management Action Plan	None Required

BUSINESS OBJECTIVE 4: TLC Copy Center Billing and Utilization

Business Objective	To ensure that the contractor’s invoices are accordance with the contracted rates and that TLC has a process to assess penalties and sanctions as necessary.
Business Risk	<ul style="list-style-type: none"> ➤ The contractor may charge TLC incorrectly due to incorrect rates or unreconciled/overstated utilization. ➤ TLC may not have a process to impose penalties and sanctions when contract requirements are not met.
Management Controls	<ul style="list-style-type: none"> ➤ The contractor includes monthly utilization totals of each device with each invoice. ➤ The contractor provides TLC with a service report that includes total number of service calls and their average response time. ➤ TLC ensures that the contractor’s invoice matches the purchase order prior to approving the payment. ➤ TLC staff ensures that copy center is open and operational on a daily basis, according to contract.
Control Tests	<ul style="list-style-type: none"> ➤ Conducted interviews. ➤ Observed copy center operations. ➤ Analyzed applicable documentation.
Control Assessment	<p>Internal controls are effective.</p> <ul style="list-style-type: none"> ➤ Controls are in place to ensure that TLC receives service and utilization information and that invoice rates agree to the contract rates. ➤ TLC has contract compliance monitoring and processes in place to assess penalties and sanctions for non-compliance.



BUSINESS OBJECTIVE 4: TLC Copy Center Billing and Utilization

Recommended Actions None

Management Action Plan None Required

