



TEXAS LOTTERY COMMISSION

Internal Audit Services

AN INTERNAL AUDIT OF

Business Continuity Planning

Report No. 23-004

June 9, 2023

This report provides management with information about the condition of risks and internal controls as a specific point in time. Future changes in environmental factors and actions by personnel may impact these risks and internal controls in ways that this report cannot anticipate.

Report Highlights

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 2023 Annual Internal Audit Plan.

Audit Objectives and Scope

To assess management's controls in place that ensure TLC can maintain essential functions during and after a business disruption.

The audit scope period was FY2023 to date.

Audit Focus

1. Network Operations / Stability,
2. Drawing Studio,
3. Claims Center,
4. Administrative Functions,
5. Identified Responsibilities,
6. Training and Exercises and
7. Business Continuity Plan Updates.

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



Thank you!

Audit Conclusions

Overall, the design of the Agency's management controls in place to ensure TLC can maintain essential functions during and after a business disruption, is generally effective. We noted that TLC's Continuity of Operations Plan (COOP) complies with applicable state and federal guidelines. Additionally, TLC performed a self-assessment of the COOP leveraging the Federal Emergency Management Agency (FEMA) Continuity Assessment Tool (CAT). The COOP scored high in all stages of continuity planning, demonstrating alignment with best practices. We noted one opportunity where the internal control or process is effective as designed but can be enhanced.

Internal Control Rating

Generally Effective with Best Practice Processes.

What Did We Recommend?

TLC should include a Business Continuity module with the existing annual security awareness training. The module should address training aspects detailed in Annex H of the TLC Continuity of Operations Plan (COOP), such as roles and responsibilities, reconstitution plans and procedures, and the organization's succession plan.

Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	0	0

Introduction

We performed this audit as part of the approved FY 2023 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

The purpose of this audit was to assess management's controls in place to ensure the Texas Lottery Commission (TLC) can maintain essential functions during and after a business disruption.

As such we focused on the completeness and updates of the Business Continuity Plan, specifically sections those related to:

1. Network Operations / Stability,
2. Drawing Studio,
3. Claims Center,
4. Administrative Functions,
5. Identified Responsibilities,
6. Training and Exercises, and
7. Business Continuity Plan Updates.

The scope period was: FY2023 to date for the TLC Business Continuity Plan (BCP).

Our audit testing resulted in an overall internal control rating of **Generally Effective with Best Practice Processes**. **Exhibit 1** describes the internal control rating.

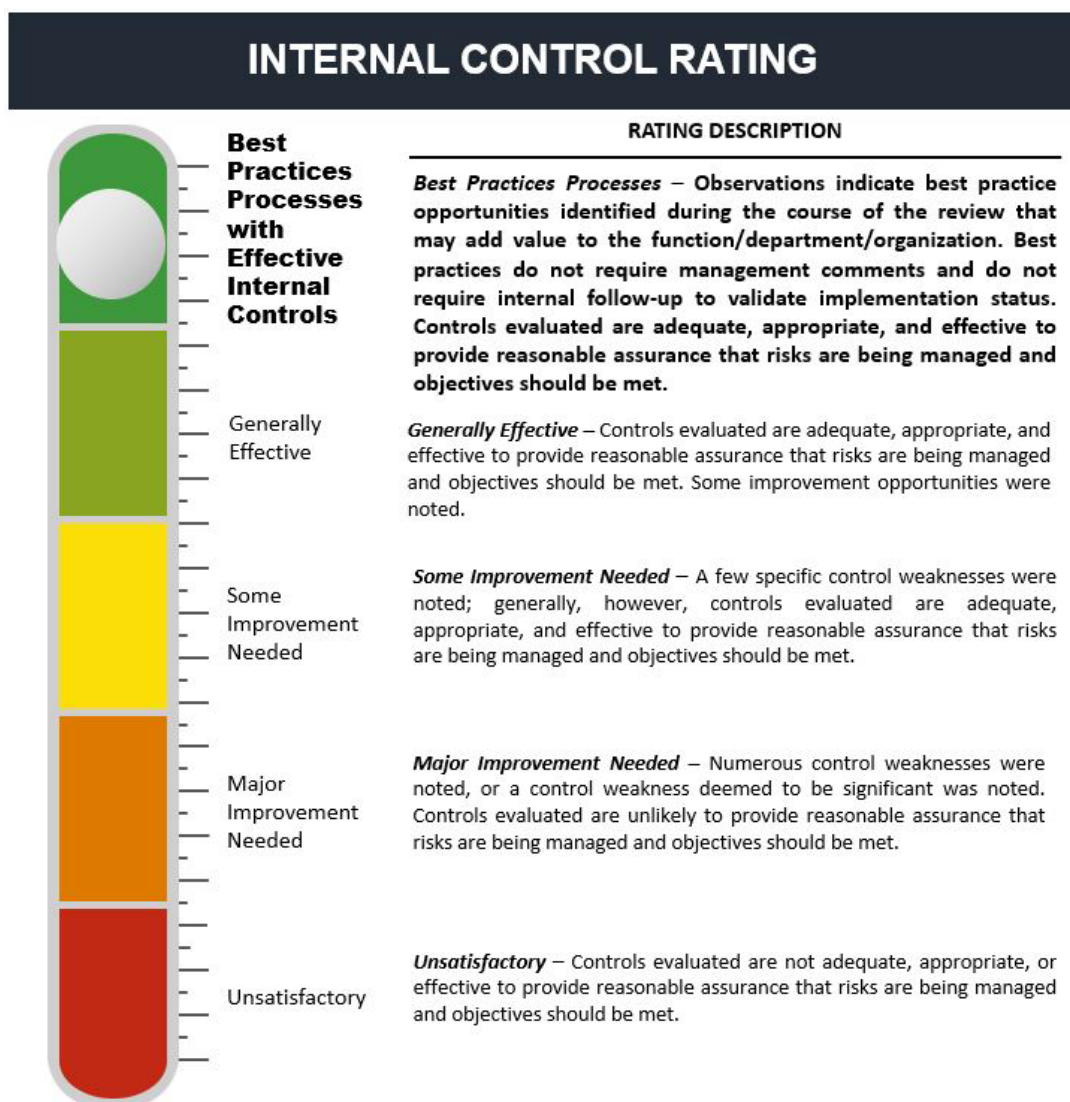


Exhibit 1: Internal control rating description.

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.

Findings and Risk Rating Summary

Inherent risk is internal audit's ranking of the impact to the organization if controls or processes were not in place or effective to prevent a negative event from occurring. Residual risk is internal audit's ranking of the remaining risk or likelihood of a negative event occurring with the internal controls and processes in place. **Exhibit 2** provides a summary of our audit observations. See the findings and management response section of this report for a discussion of all issues identified recommendations and management responses.

Business Objective / Focus Area	Business Risk Ranking	Control Effectiveness	Recommendations
1. To have business processes and controls in place that ensure the TLC Continuity of Operations Plan complies with SORM requirements.	Inherent Risk: High Residual Risk: Low	Generally Effective with Best Practice Processes No findings noted.	No recommendation made as internal controls are generally effective.
2. To have business processes and controls in place that ensure the Business Continuity Plan addresses TLC's operational needs during a business disruption.	Inherent Risk: High Residual Risk: Low	Generally Effective with Best Practice Processes No findings noted.	No recommendation made as internal controls are generally effective.
3. To have business processes and controls in place that ensure the Business Continuity Plan has been tested, and TLC staff have been trained to respond during a business disruption.	Inherent Risk: High Residual Risk: Low	Generally Effective with Improvement Opportunities No findings noted.	<p><u>Finding</u> No recommendation made as internal controls are generally effective.</p> <p><u>Opportunity for Improvement</u> O-1. TLC should include a Business Continuity module with the existing annual security awareness training. The module should address training aspects detailed in Annex H of the TLC Continuity of Operations Plan (COOP), such as roles and responsibilities, reconstitution plans and procedures, and the organization's succession plan.</p>

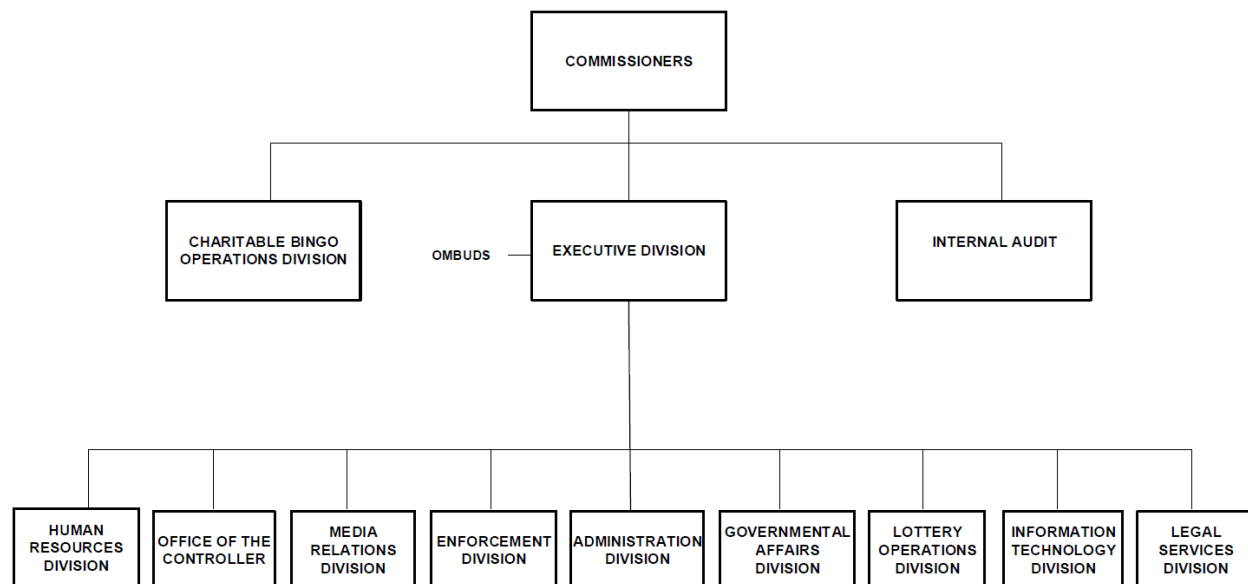
Exhibit 2: Summary of Internal Audit Findings and Recommendations.

Background

The Texas Lottery Commission (TLC) developed a Continuity of Operations Plan (COOP) as a proactive approach to mitigating potential disruptions to operations. The COOP is also known among organizations and Business Continuity Plan. This report outlines some of the key components, strengths, and potential enhancements that should be made to ensure TLC can quickly adapt to disruptions while maintaining continuous operations and safeguarding people, assets, and overall reputation. Internal Audit conducted an in-depth review of the TLC business continuity development and maintenance processes which could have an impact on lottery operations.

Business continuity strategies impact every aspect of TLC's organization, and the essential functionality provided across the divisions. **Exhibit 3** provides a high-level view of the overall TLC Organization Structure.

TEXAS LOTTERY COMMISSION ORGANIZATIONAL STRUCTURE

**Exhibit 3:** *TLC Organization Structure.*

The Continuity Assessment Tool (CAT), which was developed by the Federal Emergency Management Agency (FEMA), provides a method used to assist in determining whether gaps exist in an organization's continuity program and plan. The CAT uses a 10-point scoring system, ranging from zero (No Progress) to ten (Objective Achieved). TLC's Business Continuity Coordinator completed a self-assessment in May 2023 which scored high in all stages of the continuity planning. **Exhibit 4** provides a snapshot the overall results of the self-assessment.

Stage of Continuity Planning	AVERAGE
Getting Started: Initiating an Organizational Continuity Capability. This section examines whether the organization has addressed the foundational elements of a continuity program that will increase the success of continuity planning and operations.	10.0
Building an Organizational Continuity Capability. This section examines whether the organization has built a comprehensive continuity plan and program.	9.0
Maintaining an Organizational Continuity Capability. This section examines whether the organization is maintaining a viable continuity capability and maturing its continuity program and plan.	8.3
Comprehensive Continuity Capability Score	9.1

Exhibit 4: *TLC Continuity Assessment Score as of 5/15/2023.*

Detailed Findings and Management Response



This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.

Business Objective #1: SORM Requirements

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have business processes and controls in place that ensure the TLC Continuity of Operations Plan complies with SORM requirements.

Control Rating: Generally Effective with Best Practice Processes.

Finding Narrative:

TLC has developed, implemented, and maintains a Continuity of Operations Plan. The COOP was developed with guidance from the Texas State Office of Risk Management (SORM), incorporating requirements stated in the LABOR CODE CHAPTER 412 Sec. 412.054 and the Federal Emergency Management Agency (FEMA) Continuity Guidance Circular (Chapter 3: Maintaining a Capability). TLC reviews the COOP annually or when there are significant organizational changes, procedural changes, or other events that impact continuity processes or procedures. On even years, SORM reviews TLC's COOP to ensure the plan includes all relevant elements and complies with SORM requirements. On odd years, TLC submits documentation of plan testing to SORM for review. During the most recent plan review, SORM found that the COOP adequately addresses all required elements and provides an excellent example of providing appropriate details while maintaining adaptability.

Criteria	<ul style="list-style-type: none"> ➤ LABOR CODE CHAPTER 412 Sec. 412.054. CONTINUITY OF OPERATIONS PLAN. ➤ FEMA Continuity Guidance Circular (February 2018).
Effect/Risk/Impact	➤ The TLC Business Continuity Plan may not effectively address all the SORM requirements.
Control Tests	<ul style="list-style-type: none"> ➤ Inquired the Business Continuity Coordinator. ➤ Inspected the TLC COOP and supporting documents. ➤ Examined the FEMA Continuity Assessment Tool results completed by the Business Continuity Coordinator on 5/15/2023. ➤ Examined the TLC COOP to determine alignment with the LABOR CODE CHAPTER 412 Sec. 412.054 and FEMA Continuity Guidance Circular (Chapter 3: Maintaining a Capability).
Management Controls in Place	<ul style="list-style-type: none"> ➤ The TLC Business Continuity Coordinator maintains the COOP, leveraging guidance from the Texas State Office of Risk Management (SORM). ➤ TLC maintains a business continuity portal that is accessible to relevant individuals to access and contribute to the components within the Agency's COOP.
Findings / Opportunities	Controls are working effectively. No control findings noted.
Root Cause	Not applicable as no findings were noted.

Recommended Actions

No recommendations are made.

Management Response

Not required as no findings were noted.

Business Objective #2: TLC Operational Requirements

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have business processes and controls in place that ensure the Business Continuity Plan addresses TLC's operational needs during a business disruption.

Control Rating: Generally Effective with Best Practice Processes.

Finding Narrative:

TLC has developed an Information Technology Security Manual that establishes requirements for maintaining a written continuity plan. TLC has developed, documented, and implemented the TLC Continuity of Operations Plan to address these requirements.

The TLC COOP is managed by the Business Continuity Coordinator and includes, by reference, functional annexes that address each of TLC's functional areas, which are updated by the respective division heads on an annual basis. The COOP, along with all functional annexes, are available to relevant individuals through the TLC business continuity portal.

The TLC Mission Essential Functions depend on Drawing Studio personnel to perform drawings and IT to maintain network connectivity in the event of a potential business disruption. To address these dependencies, TLC Drawing Studio has developed and implemented a business continuity checklist to ensure that lottery drawings can be continuously performed in the event of a business disruption. Similarly, IT has identified and prioritized the systems needed to provide network services in support of TLC's mission essential functions.

Criteria	<ul style="list-style-type: none"> ➤ LABOR CODE CHAPTER 412 Sec. 412.054. CONTINUITY OF OPERATIONS PLAN. ➤ FEMA Continuity Guidance Circular (February 2018).
Effect/Risk/Impact	<ul style="list-style-type: none"> ➤ The TLC Business Continuity Plan may not address TLC's operational needs during a business disruption.
Control Tests	<ul style="list-style-type: none"> ➤ Inquired the Business Continuity Coordinator, Administration Division Director, Facilities Manager, Claims Center Manager, Information Security Officer, Technical Support Supervisor, and Drawing Supervisor to determine the processes in place to ensure that the Continuity of Operations Plan addresses TLC's operational needs and reflects the current environment. ➤ Inspected the Information Technology Security Manual to determine the established requirements related to business continuity. ➤ Inspected TLC Continuity of Operations Plan dated 5/23/2023 to determine whether the COOP addresses TLC's operational needs and reflects the current environment. ➤ Observed the Business Continuity Coordinator accessing the Business Continuity Portal to determine how the COOP is documented and distributed to relevant personnel. ➤ Inspected 010 - Annex A - Administration Division Recovery Procedures to determine whether the Administration Division Recovery Procedures were updated to reflect the current environment. ➤ Inspected 080 - Annex H - Information Technology Division Recovery Procedures to determine whether the Information Technology Recovery Procedures were updated to reflect the current environment. ➤ Inspected 090 - Annex J - Lottery Operations Recovery Procedures to determine whether the Lottery Operations Recovery Procedures were updated to reflect the current environment.

	<ul style="list-style-type: none"> ➤ Inspected the Lottery Drawing Studio's Manual BCP Checklist, last updated April 10, 2023, to determine the specific procedures in place to ensure drawings can be performed if drawings need to be moved to the business continuity site.
Management Controls in Place	<ul style="list-style-type: none"> ➤ TLC has developed an Information Technology Security Manual that establishes requirements for maintaining a written continuity plan. ➤ TLC has developed a Continuity of Operations Plan that is managed by the Business Continuity Coordinator and includes, by reference, functional annexes that address each of TLC's functional areas. ➤ TLC updates the Continuity of Operations Plan and all functional annexes on an annual basis. Functional annexes are updated by the respective division heads. ➤ TLC maintains a business continuity portal that is accessible to relevant individuals to access and contribute to the components within the TLC COOP. ➤ TLC Drawing Studio has developed and implemented a business continuity checklist to ensure that lottery drawings can be continuously performed in the event of a business disruption. ➤ TLC IT has identified and prioritized the systems needed to provide network services in support of TLC's mission essential functions.
Findings / Opportunities	Controls are working effectively. No control findings noted.
Root Cause	Not applicable as no findings were noted.

Recommended Actions

No recommendations are made.

Management Response

Not required as no findings were noted.

Business Objective #3: BCP Testing and Training

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have business processes and controls in place that ensure the Business Continuity Plan has been tested, and TLC staff have been trained to respond during a business disruption.

Control Rating: Generally Effective.

Finding Narrative:

The Business Continuity Coordinator conducts testing and exercising of the COOP in accordance with the documented schedule. The results of the functional testing are submitted to the Texas State Office of Risk Management for review and feedback.

Though no control findings noted, an Opportunity for Improvement was identified, related to formal business continuity training.

Criteria	<ul style="list-style-type: none"> ➤ LABOR CODE CHAPTER 412 Sec. 412.054. CONTINUITY OF OPERATIONS PLAN. ➤ FEMA Continuity Guidance Circular (February 2018). ➤ TLC Continuity of Operations Plan dated 3/23/2023.
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Effect/Risk/Impact	<ul style="list-style-type: none"> ➤ The TLC COOP may not be tested on a regular basis which may negatively impact ability to respond to a business disruption. ➤ TLC staff may not be trained to respond during a business disruption.
Control Tests	<ul style="list-style-type: none"> ➤ Inquired the Business Continuity Coordinator & Drawing Supervisor. ➤ Inspected TLC Continuity of Operations Plan dated 3/23/2023. ➤ Inspected COOP review Letter TLC 2022. ➤ Inspected 2023 Functional Exercise - COOP.docx. ➤ Inspected RE Lottery Commission Annual Exercise Submission.msg.
Management Controls in Place	<ul style="list-style-type: none"> ➤ The TLC Continuity of Operations Plan includes a schedule that depicts the intervals for the testing and exercising of continuity capabilities. ➤ The TLC Business Continuity Coordinator conducts testing and exercising of the continuity capabilities on regular intervals. ➤ The TLC Business Continuity Coordinator submits results of the COOP exercises to the Texas State Office of Risk Management for review and feedback.
Findings / Opportunities	<p><u>Findings:</u> Controls are working effectively. No control findings noted.</p> <p><u>Opportunities for Improvement:</u> O-1. TLC personnel receive informal on-the-job training and participate in testing exercises of the TLC Continuity of Operations Plan. However, TLC does not provide formal business continuity training for all personnel.</p>
Root Cause	Not applicable as no findings were noted.

Recommended Actions

Findings:

No recommendations are made.

Opportunities for Improvement:

O-1. TLC should include a business continuity module with the existing annual security awareness training. The module should address training aspects detailed in Annex H of the TLC Continuity of Operations Plan such as roles and responsibilities, reconstitution plans and procedures, and the organization's succession plan.

Management Response

Not required as no findings were noted.