



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



TEXAS LOTTERY COMMISSION 2014 INTERNAL AUDIT PLAN



Table of Contents

Section	Page Number
<i>1.0 Compliance with House Bill 16: Publication of Audit Plan and Annual Report on the Internet.....</i>	<i>2</i>
<i>2.0 Purpose.....</i>	<i>3</i>
<i>3.0 Risk Assessment.....</i>	<i>4</i>
<i>4.0 2014 Annual Audit Plan.....</i>	<i>5</i>
<i>5.0 Significant Interim Changes.....</i>	<i>6</i>



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February 13, 2014

The Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is the 2014 Internal Audit Plan for the Texas Lottery Commission (TLC). This annual audit plan was discussed with the TLC's Commissioners and received approval on February 13, 2014. 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. This annual audit plan will be executed by McConnell & Jones LLP (MJ) 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 Odysseus Lanier at 713.968.1603 or Commissioner J. Winston Krause at 512.477.6707 if you should have any questions about this audit plan.

Sincerely,

Odysseus Lanier, CPA

Partner

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1.0 COMPLIANCE WITH HOUSE BILL 16: PUBLICATION OF AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

House Bill 16 amended the Texas Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports to the agency's Internet website within 30 days of approval. House Bill 16 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 House Bill 16, 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 (TLC) Commissioners on February 13, 2014, 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 using the results of the risk assessment and input from the TLC leadership team. Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors, using a weighted average risk measurement scoring system; evaluated the proposed engagements; and prioritized the audits based on the risk measurement score. The engagements selected were based on the quantified risk priorities and the organization's risk strategy.



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. 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, 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 assessment methodology and risk exposures with the TLC Commissioners and leadership team. We identified, analyzed, and prioritized risks by customizing risk factors and weighting system to the TLC's major systems, organizational objectives, structure, balance sheet, and business processes. We reviewed prior audit reports and self-assessments, conducted interviews with the TLC leadership and administered a survey modeled after the Texas State Auditor's Office *Assessing Risk in Key Accountability Control Systems* document. The survey was deployed to the TLC key business process owners. We received responses from 88 percent of the staff surveyed. The survey results were analyzed and fed into our risk assessment model.



4.0 2014 ANNUAL AUDIT PLAN

MJ will conduct three audits, review internal controls and business processes for two new information systems being implemented, update the risk assessment, manage complaints received through the State Auditor's Office (SAO) and the Ethics Line, assist TLC with coordinating external audits and reviews, prepare the 2015 annual audit plan and prepare the 2014 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **1,917 hours** for a total annual budget not to exceed \$245,139. The planned audits, timing and estimated hours are summarized in the chart below.

2014 Annual Audit Plan Activities

Audit / Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Lottery Service Portal (LSP) Internal Controls	Internal Controls	February 2014 - August 2014	146
2	Bingo Operating Service System (BOSS) Internal Controls	Internal Controls	All Year	352
3	Charitable Bingo Allocation	High	March 2014 - April 2014	225
4	Sales to State Transfer	High	May 2014 - August 2014	500
5	IT Security & General Controls (Active Directory)	High	February 2014 - March 2014	250
6	Management of Complaint Lines	Compliance	All Year	120
7	External Audit / Review Assistance	Compliance	All Year	88
8	Update Risk Assessment & Develop 2015 Audit Plan	Compliance	July - August 2014	88
9	2014 Annual Audit Report	Compliance	July - August 2014	44
10	Audit Communications, Committee Meetings, Project Management	N/A	All Year	104
	Total			1,917



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 February 13, 2014.



J. Winston Krause, Chairman