



Texas Lottery Commission Internal Audit Services

FY 2023 Annual Internal Audit Report



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McConnell Jones

October 12, 2023

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

Dear Ladies and Gentlemen:

Attached is the fiscal year (FY) 2023 Annual Internal Audit Report for the Texas Lottery Commission (TLC). This annual internal audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102).

TLC engaged McConnell & Jones LLP (MJ) on September 1, 2021, to provide internal audit services to the TLC in accordance with The Texas Internal Auditing Act, pursuant to the Request for Proposals (RFP) issued February 23, 2021. MJ submits this fiscal year 2023 Annual Internal Audit Report on behalf of the TLC Commissioners.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for their governing board. The purpose of the Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the FY 2023 Annual Internal Audit Report is due November 1, 2023.

Please contact Darlene Brown at 713.968.1617 or Commissioner Robert G. Rivera at 817.240.6371 if you should have any questions about this audit report.

Sincerely,

Darlene Brown, CIA, CFE
Partner

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I. 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 Annual Internal Audit Plans and Annual Internal Audit 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, McConnell & Jones LLP (MJ) will ensure the required Annual Internal Audit Plan, Annual Internal Audit Report and any other required internal audit information is provided to the Texas Lottery Commission (TLC) for posting to their website.

II. FISCAL YEAR 2023 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2023 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the TLC commissioners. The table below reflects the status of the approved FY 2023 Internal Audit Plan as of August 31, 2023.

FY 2022 Annual Internal Audit Plan Status

Task #	Description	Report Number	Report Date	Report Title	Audit Status
1	Key Vendor SOC User Control Considerations (UCCs)	N/A	N/A	N/A	In-Progress
2	Ticket Warehouse Operations	Began planning in Aug. 2023 and fieldwork carried over to FY2024			
3	Physical Security – New Office Operations	22-003	Sept. 2, 2022	Physical Security – New Office Operations	Completed
4	Business Continuity Planning	23-004	June 9, 2023	Business Continuity Planning	Completed
5	Jackpot Estimation System	23-005	August 1, 2023	Jackpot Estimation System Updates	Completed
6	Gaming Changes Game System Changes (if any)	Cancelled			
7	Claims and Prize Payment Management	Postponed to FY2024 (System changes are in-progress)			
8	CBOD Licensing (Consulting Engagement)	Postponed to FY2024			



Task #	Description	Report Number	Report Date	Report Title	Audit Status
11	Information System User Access	On-Going. However, no exceptions have been noted during quarterly testing.			
12	Follow-Up on Prior Audit Findings	On-Going			
13	Monitor Ethics Hotline	On-Going			
14	External Audit / Review Assistance	Assistance Provided as Requested			
15	Update Risk Assessment & Annual Audit Plan	Completed			
16	Annual Internal Audit Report	Completed			
17	Audit Communications, Committee Meetings, Project Management	On-Going			

N/A = Audit reports are not issued for these audit activities.

Deviation from Fiscal Year 2023 Internal Audit Plan

Except for two audits that were postponed to FY2024, Internal Audit executed the approved FY 2023 Internal Audit plan as approved.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit did not provide consulting services in FY2023.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987 and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter below.



Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2020, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

Turner, Stone & Company, L.L.P.

Turner, Stone & Company, L.L.P.

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Report on the Firm's System of Quality Control

June 18, 2021

To the Partners of
McConnell & Jones, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

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V. FISCAL YEAR 2024 INTERNAL AUDIT PLAN

MJ developed the Fiscal Year 2024 Annual Internal Audit Plan based on results of the annual risk assessment. 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; security of information systems; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

MJ will conduct six scheduled audits, two consulting engagements, update the risk assessment, conduct prior audit finding follow-up activities, prepare the FY 20245 Annual Internal Audit Plan and prepare the FY 20234 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,234 hours**. The planned audits, timing and estimated hours are summarized in the table below. Each of our planned audits will incorporate information technology and data security controls.

FY 2024 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Ticket Warehouse Operations <ul style="list-style-type: none"> Receiving Distribution Ticket Returns Ticket Destruction Physical Inventory 	High	September 2023– November 2023	230
2	Legislation Change Management Processes <ul style="list-style-type: none"> Applicable Legislation Identification Implementation Project Plans Implementation Monitoring Implementation Completion Close-Out Process 	High	January 2024– February 2024	220
3	Procurement and Contracting Processes <ul style="list-style-type: none"> Adherence to Policy Conflict of Interest and Ethics Solicitation Process Solicitation Evaluation Contract Award Contract Monitoring Vendor Performance Reporting Contract Value True-Ups NRAs Contract Close-Out 	High	February 2024– April 2024	280
4	CBOD Licensing (Consulting Engagement) <ul style="list-style-type: none"> Compliance with Regulatory Requirements New licenses 	High	March 2024– May 2024	308



Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
	<ul style="list-style-type: none"> • Renewals • Fees • Training • Document Retention • Automation 			
5	Retailer Incentive & Bonus Programs <ul style="list-style-type: none"> • Compliance with Policy • Compliance with Legislation • Payment Accuracy 	High	April 2024– May 2024	240
6	Claims and Prize Payment Management <ul style="list-style-type: none"> • Claims Center and Mail Operations • Debt Setoff Collection and Payment Processes • Mobile Claims Back Office Processes 	High	May 2024 – June 2024	340
7	Customer, Stakeholder, and Retailer Satisfaction and Complaint Handling <ul style="list-style-type: none"> • License Issue Times • Satisfaction Surveys, Response Analysis, and Action Plans to Address Trends • Complaint Intake • Complaint Resolution Timeliness • Complaint Tracking and Analysis • Complaint Action Plans to Address Trends 	High	May 2024– June 2024	300
8	Lottery Operator Contract Solicitation Processes (Advisory) <ul style="list-style-type: none"> • Assess process after each milestone (planning, solicitation issuance, response evaluation, contract award) 	High	On-Going	104
9	Information System User Access	High	On-Going	47
10	Follow-Up on Prior Audit Findings	High	On-Going	38
11	Monitor Ethics Hotline	Compliance	On-Going	2
12	External Audit / Review Assistance	N/A	On-Going	2
13	Update Risk Assessment & Annual Audit Plan	Compliance	July 2024	44
14	Annual Internal Audit Report	Compliance	August 2024	9
15	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	70
	Total Hours			2,234



VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2023

The following represent external audit services that were procured by the Texas Lottery Commission or were ongoing in fiscal year 2023.

<i>Audit / Review</i>	<i>Auditor</i>
Drawings Studio Independent Auditor Certifications	BKD Partners
Annual Financial Audit Services	Weaver and Tidwell, LLP
Internal Audit Services	McConnell Jones

VII. REPORTING SUSPECTED FRAUD AND ABUSE

Texas Lottery Commission has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The Texas Lottery Commission included a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the Texas Lottery Commission website. In addition, information on reporting suspected fraud to the State Auditor's Office is included in the agency's policies and procedures.

The Texas Lottery Commission utilizes EthicsPoint Reporting. EthicsPoint is a third-party vendor that provides an Internet and telephone-based reporting system that can be accessed by Commission employees. This system is intended to supplement the existing avenues within the Commission for employees to report concerns. All EthicsPoint complaints are reviewed by the agency's General Counsel and reported to SAO as applicable.

VIII. 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's executive management and present these changes to the TLC Commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the Audit Committee will be submitted to the State Auditor's Office (SAO).