



Texas Lottery Commission
Internal Audit Services
FY 2024
Annual Internal Audit Plan



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McConnell Jones

October 12, 2023

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

Dear Ladies and Gentlemen:

Attached is the FY 2024 Internal Audit Plan for the Texas Lottery Commission (TLC) approved by TLC's Commissioners on October 12, 2023. The Annual Internal 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. McConnell & Jones LLP (MJ) will execute this annual audit plan 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 Darlene Brown at 512.828.3218 or Commissioner Robert G. Rivera at Robert.rivera@lottery.state.tx.us if you should have any questions about this audit plan.

Sincerely,

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Partner

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1.0 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 internal audit plans and internal audit annual reports to the agency's 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, 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 Executive Director who will ensure the information is posted to the TLC's website.

2.0 PURPOSE

The purpose of this document is to communicate the annual risk-based audit plan as approved by the TLC's Commissioners, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan.

The Annual Internal Audit Plan was developed based on a prioritization of the audit universe, updating the prior years' risk assessment, input from the TLC leadership team, Commissioners and guidance provided by the State Auditor's Office (SAO). Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk rating.

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 and Commissioners. 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, policies and procedures, 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 Agency's risk exposures with the TLC's leadership team. We then updated the Annual Internal Audit Plan based upon current risks facing TLC operations.



4.0 FY 2024 ANNUAL AUDIT PLAN

MJ will conduct six scheduled audits, two consulting engagements, update the risk assessment, conduct prior audit finding follow-up activities, prepare the FY 2025 Annual Internal Audit Plan and prepare the FY 2024 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.

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 Renewals Fees Training Document Retention Automation 	High	March 2024– May 2024	308
5	Retailer Incentive & Bonus Programs <ul style="list-style-type: none"> Compliance with Policy 	High	April 2024– May 2024	240



Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
	<ul style="list-style-type: none"> Compliance with Legislation Payment Accuracy 			
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
	Total Fees			\$298,653

Proposed audits will focus on internal controls and business processes

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 on October 12, 2023.