



McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS



## TEXAS LOTTERY COMMISSION 2015 INTERNAL AUDIT PLAN



As Prepared by  
McConnell & Jones LLP



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August 12, 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 2015 Internal Audit Plan for the Texas Lottery Commission (TLC). This annual audit plan was discussed with the TLC's Commissioners and received approval on August 12, 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 Gilbert Hopkins at 713.968.1624 or Commissioner J. Winston Krause at 512.477.6707 if you should have any questions about this audit plan.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Gilbert Hopkins'.

Gilbert Hopkins, CPA  
Director

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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 August 12, 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, policies and procedures, and contracts. We also considered contract management and information technology in our risk assessment.

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 employees. We received 110 responses (38 percent) of the staff surveyed. The survey results were analyzed and incorporated into our risk assessment model.



The following chart is the three-year audit plan which is a result of the risk assessment.

**Texas Lottery Commission  
Proposed Three Year Audit Plan**

Audit Area	Risk Category	Year 1 2015	Year 2 2016	Year 3 2017
Instant Game Sales to Pay-Out Cycle	High			
Procure – To – Pay Cycle	Medium			
Jackpot Estimations	High			
Drawing Process	High			
Bingo Operating Service System (BOSS) Implementation	High			
LSP Implementation	High			
Entity-Wide Performance Measures	Compliance			
Retailer Management Life Cycle	High			
Business Continuity / Disaster Recovery	High			
Contract Management Life Cycle	Medium			
Instant & Draw Game Life Cycle	High			
Revenue to Receivables Life Cycle	Medium			
Financial Reporting Life Cycle	Medium			
Charitable Bingo Life Cycle	Compliance			
Follow-Up on Prior Audit Findings	Compliance			
Ethics Line Management	Compliance			
Update Risk Assessment & Develop Annual Audit Plan	Compliance			
Annual Audit Report	Compliance			
Audit Communications	Compliance			





## 4.0 2015 ANNUAL AUDIT PLAN

MJ will conduct four audits, review internal controls and business processes for two new information systems being implemented, provide advisory and consulting services for the Charitable Bingo Operations Division business process restructuring project, follow-up on prior audit findings, 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 2016 annual audit plan and prepare the 2015 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,380 hours** for a total annual budget not to exceed \$299,897. The planned audits, timing and estimated hours are summarized in the chart below.

### 2015 Annual Audit Plan Activities

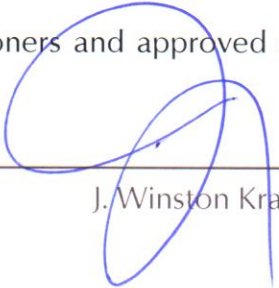
Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Instant Games Sales to Transfer to State	High	September - November 2014	330
2	Procure-to-Pay Cycle	Medium	January – April 2015	312
3	Jackpot Estimations	High	May 2015 – June 2015	142
4	Drawing Process	High	June 2015 – August 2015	142
5	Bingo Operating Service System (BOSS) Internal Controls	Internal Controls	September 2014 – July 2015	60
6	Lottery Service Portal (LSP) Internal Controls	Internal Controls	September 2014 – July 2015	30
7	CBOD Business Process Restructuring Project	Compliance	September 2014 – April 2015	1,000
8	Follow-Up on Prior Audit Findings	Compliance	May 2015 – August 2015	60
9	Management of Complaint Lines	Compliance	All Year	24
10	External Audit / Review Assistance	Compliance	All Year	80
11	Update Risk Assessment & Develop 2016 Audit Plan	Compliance	July - August 2014	60
12	2015 Annual Audit Report	Compliance	July - August 2014	20
13	Audit Communications, Committee Meetings, Project Management	N/A	All Year	120
<b>Total</b>				<b>2,380</b>



## 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 August 12, 2014.



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J. Winston Krause, Chairman