VIII.

MJ McConnell & Jones LLP
Certified Public Accountants

INTERNAL AUDIT SERVICES

TEXAS LOTTERY

STATUS REPORT TO THE COMMISSIONERS

FEBRUARY 2, 2017

INFORMATION ITEM – NO ACTION REQUIRED

Internal Audit Activities This Period

Internal Audit Services' activities during this period (December 1, 2016 through January 15, 2017) include:

- Completed scratch ticket warehouse receiving controls (truck seals)
- Completed scratch ticket reconstruction audit
- Completed Enforcement Division background check and investigations processes audit
- Completed CBOD audit services processes review
- Conducted fraud awareness training for all TLC employees
- Commenced the retailer management audit
- Commenced planning for the crisis management audit
- Commenced planning for the time and attendance audit

Fiscal Year 2017 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	Scratch Ticket Warehouse Receiving Controls	✓	✓	✓	✓		
2	Scratch Ticket Pack Reconstruction	✓	✓	✓	🔍		
3	Bingo Audit Processes	✓	✓	✓	🔍		
4	Enforcement - Background Check and Investigation Processes	✓	✓	✓	🔍		
5	Retailer Management	✓	🔍				
6	Fraud Awareness Training	✓	✓	N/A	N/A	N/A	N/A
7	Time and Attendance	🔍					
8	Second Chance Drawing Process	⊘					
9	Crisis Management Plan	🔍					
10	Active Directory Audit	⊘					
11	Jackpot Estimation System	⊘					

Legend: ⊘ Not Started 🔍 In-Progress ✓ Completed Continuous

Fiscal Year 2017 Internal Audit Plan Status Cont'd

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
12	Scratch Ticket Working Paper Workflow System	Not Started					
13	Follow-Up On Prior Audit Findings	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
14	Monitor of Fraud/Complaint Hotlines Lines	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
15	External Audit / Review Assistance	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
16	Update Risk Assessment & Develop 2018 Audit Plan	Not Started					
17	Annual Audit Report	Not Started					

Legend: Not Started In-Progress Completed Continuous

Scratch Ticket Warehouse Receiving Audit

Internal Control Rating: **Effective**

Audit Scope: **Scratch Ticket Transportation and Receipt Processes**

Conclusion:

We believe that both the scratch ticket manufacturing vendors and the Texas Lottery Commission have adequate controls in place to ensure that scratch tickets are transported in a secure manner and that controls are in place to ensure that contraband of any nature is not able to be introduced into the transportation vehicle without the vehicle's security breach being identified by TLC upon delivery. Additionally, suppliers printing scratch tickets in facilities outside of the United States borders hold high level transportation certifications issued by the United States Department of Homeland Security. The certifications add an additional layer of security for transporting scratch tickets across borders.

Internal Controls Achieved Through:

- Shipping and transportation security requirements identified in the scratch ticket game request for proposals (RFP) and each supplier's contract.
- Tamper-proof, serialized seals (locks) placed on trucks prior to leaving scratch ticket supplier's loading docks.
- Truck seal information and shipping details sent to TLC once trucks are fully loaded and secured.
- Scratch ticket supplier transportation certifications.
- Well documented policies and procedures that are understood and followed by employees.
- Defined roles and responsibilities for scratch ticket receiving processes.

Scratch Ticket Reconstruction Audit

Internal Control Rating: **Effective**

Audit Scope: **Scratch Ticket Reconstruction Request, Approval and Monitoring Processes**

Conclusion:

We believe that the Texas Lottery Commission has adequate controls in place to ensure that scratch tickets reconstruction requests are stringently controlled, authorized, monitored and accounted for to prevent malfeasance or loss.

Internal Controls Achieved Through:

- Well documented policies and procedures that are understood and followed by employees.
- Defined roles and responsibilities for the scratch ticket reconstruction processes.
- Limited number of staff with authority to authorize and request scratch ticket reconstructions from suppliers.
- Limited number of staff with access to scratch ticket reconstruction information.
- Monthly reconciliations of scratch ticket reconstruction request and usage.

Anticipated Activities Next Period

- **Begin:**
  - Crisis management audit
  - Time and attendance audit

- **Continue:**
  - Retailer management audit