McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INTERNAL AUDIT SERVICES

STATUS REPORT TO THE COMMISSIONERS

DECEMBER 13, 2018

INFORMATION ITEM – NO ACTION REQUIRED

Internal Audit Activities

Internal Audit Services' activities during this period (September 15, 2018 through October 31, 2018) include:

- Completed the following audits:
  - Copy Center Audit
- Continued working with CBOD to revise desk review program and processes.
- Continued working with Information Resources Division to modify a centralized audit reporting database.

Fiscal Year 2018 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	CBOD Education Program	Completed	Completed	Completed	Completed	Completed	Completed
2	Personal Identifiable Information Handling	Completed	Completed	Completed	Completed	Completed	
3	Social Responsibility	Completed	Completed	Completed	Completed	Completed	Completed
4	Drawing Equipment Maintenance	Completed	Completed	Completed	Completed	Completed	Completed
5	Unclaimed Prize Processes	Completed	Completed	Completed	Completed	Completed	Completed
6	Instant Game Closing Processes	Completed	Completed	Completed	Completed	Completed	Completed
7	Main and Mail Room Processes	Completed	Completed	Completed	Completed	Completed	Completed
8	Follow-Up On Prior Audit Findings	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
9	Monitor of Fraud/Complaint Hotlines Lines	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
10	External Audit / Review Assistance	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
11	Update Risk Assessment & Develop 2019 Audit Plan	Completed	Completed	Completed	Completed	Completed	Completed
12	Annual Audit Report	Completed	Completed	Completed	Completed	Completed	Completed
13	CBOD Communications	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous

Legend: Not Started In-Progress Completed Continuous

Fiscal Year 2019 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	Copy Center Operations	Completed	Completed	Completed	Completed	Completed	
2	Centralize Audit Report Findings and Monitoring	Completed	In-Progress				
3	HB 2578 Implementation	Completed					
4	Game Changes	Completed					
5	Drawings Studio	Completed					
6	Cyber Security Program	Not Started					
7	Retailer Incentive Program	Completed					
8	Lottery Operations Customer Service	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
9	Bingo Follow-Up and Assistance Activities	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
10	Information System User Access Monitoring	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous

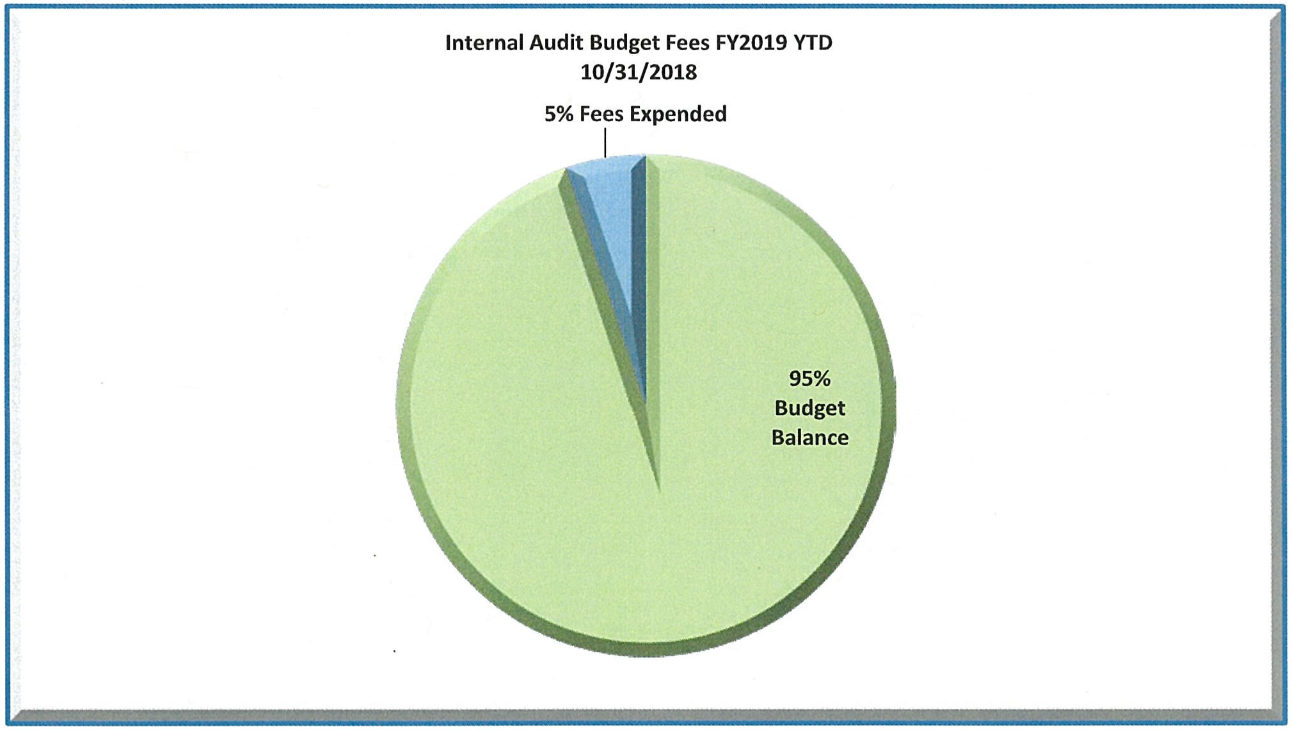
Legend: Not Started In-Progress
Completed Continuous

Fiscal Year 2019 Internal Audit Plan Status (*Cont'd.*)

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
11	Follow-Up On Prior Audit Findings						
12	Monitor of Fraud/Complaint Hotlines Lines						
13	External Audit / Review Assistance						
14	Update Risk Assessment & Develop 2019 Audit Plan						
15	Annual Audit Report						
16	Audit Communications, Committee Meetings, Project Management						

Legend: Not Started In-Progress Completed Continuous

FY 2019 Internal Audit Budget as of October 31, 2018



MJ is cognizant of the importance of managing the approved hours and budget. As such we are diligent about staying within the estimated hours per audit and activity. There may be instances where audits/activities are over or under estimated hours and we will adjust the audit plan budget accordingly to stay within the total approved budget.

Legend: ⦸ Not Started 🔍 In-Progress
✔ Completed ♻ Continuous

Fiscal Year 2019 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	Copy Center Controls and Monitoring Process	✔	🔍				
2	Centralize Audit Report Findings and Monitoring	✔	🔍				
3	HB2578 Implementation	✔					
4	Game Changes	✔					
5	Drawings Studio	⦸					
6	Cyber Security Program	⦸					
7	Retailer Incentive Program	⦸					
8	Lottery Operations Customer Service	⦸					
9	Follow-Up On Prior Audit Findings	♻	♻				
10	Bingo Follow-Up Activities	♻	♻	♻	♻	♻	♻
11	Information System User Access	♻	♻	♻	♻	♻	♻
12	Monitor of Fraud/Complaint Hotlines Lines	♻	♻	♻	♻	♻	♻
13	External Audit / Review Assistance	♻	♻	♻	♻	♻	♻
14	Update Risk Assessment & Develop 2020 Audit Plan	♻	♻				
15	Annual Audit Report	⦸					

Anticipated Activities Next Period

- Issue the Personal Identifiable Information Handling Audit Report
- Complete Copy Center Audit
- Commence Drawings Studio Audit
- Complete the Centralized Audit Findings Data Base
- Commence the HB2578 Implementation Audit
- Commence Audit of Cash 5 Game Changes

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INTERNAL AUDIT SERVICES

TEXAS LOTTERY

AUDIT REPORT SUMMARY

DECEMBER 13, 2018

ACTION ITEM

Report #	Report Title	Internal Controls/ Function Reviewed	Audit Conclusion	Recommendations
18-002	Personal Identifiable Information Handling	We assessed management controls in place to ensure reasonable assurance that: ✓ PII is protected from unauthorized use. ✓ Internal controls ensure regulatory compliance and data protection. ✓ Employees, vendors and contractors are trained on how to handle the agency's PII. ✓ Employees and contractors handle PII according to agency policies. ✓ Processes are in place to protect against potential data breaches. ✓ Processes are in place to quickly identify and respond to potential data breaches.	Effective	1. TLC should continue to enhance their data security and privacy program through the Enterprise Risk Manager's coordination activities. 2. TLC's information security officer should expand the information system listing to also list each item of PII or sensitive data that is maintained within the respective system. 3. TLC should explore different security training videos that are more informative and engaging so that participants gain a better understanding of situations that may arise and how they should respond to various situations that they are likely to encounter.

Highlights:

- ✓ TLC has comprehensive PII program components in place to cover all aspects of protecting PII in electronic and paper formats. These include policies, processes and training.
- ✓ The agency's Information Resources Division has processes and controls in place to protect unauthorized access to electronic PII.
- ✓ Each of the agency's divisions and departments have controls in place for handling PII.
- ✓ During the time of fieldwork the agency did not have a function or individual responsible for coordinating the agency's data security and privacy program efforts. TLC took immediate actions when we informed the leadership team of this. TLC has now designated an Enterprise Risk Officer to coordinate their comprehensive data security and privacy program efforts

Report #	Report Title	Internal Controls/ Function Reviewed	Audit Conclusion	Recommendations
19-001	Copy Center Operations	We assessed management controls in place to ensure reasonable assurance that: ✓ Information and documents are properly handled and physically secured. ✓ Copy and printing jobs are processed in a controlled and timely manner. ✓ Copy and printing equipment/devices attached to TLC's network are protected against unauthorized access. ✓ Peripheral devices such as flash drives and hard drives cannot be attached to the copy center equipment to transfer TLC data stored on the equipment. ✓ Information stored electronically on copy equipment/devices is appropriately deleted/wiped clean on a regular basis. ✓ Hard drives are deleted/wiped clean and removed for proper disposal prior to copy equipment/device removal or replacement. ✓ Ensure accuracy of copy center contractor invoices according to the contract and purchase order.	Best Practices with Effective Internal Controls	None

Highlights:

- ✓ TLC outsources copy center operations to a third party vendor (contractor) and the contractor's staff are responsible for all functions within the copy center. The contractor also maintains copy machines located at claims centers and in the TLC headquarters.
- ✓ Copy center staff also scan TLC remittance room documents into the agency's document repository system.
- ✓ Outsourcing the copy center operations provides enhanced internal controls as the number of copy machines that have printed documents awaiting retrieval and electronic data that is stored in equipment memory is significantly reduced.
- ✓ Fiscal and staff resources are used more effectively in the outsourced model. The agency is saving money by not leasing, purchasing or maintaining copy equipment and agency staff are not required to spend time maintaining copy machines and clearing paper jams.

Action

Internal Audit requests your approval of the following audit reports:

1. Personal Identifiable Information
2. Copy Center Operations