



TEXAS LOTTERY COMMISSION

Internal Audit Services

AN INTERNAL AUDIT OF

Claims and Prize Management

Report No. 25-002

FINAL

April 30, 2025

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel may impact these risks and internal controls in ways that this report cannot anticipate.

Report Highlights

Why Was This Review Conducted?

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission (TLC), performed this internal audit as part of the approved FY 2025 Annual Internal Audit Plan.

Business Objectives and Scope

The business objective of claims and prize management activities is to establish management controls that ensure prize payments are made for valid claims and processed in an accurate and timely manner.

The audit scope period was September 1, 2023, to January 31, 2025.

Audit Focus

- Claims Center and Mail Operations
- Debt Setoff Collection and Payment Processes
- Mobile Claims Back Office Processes

Audit Conclusions

TLC's internal controls over claims and prize management operations are generally effective in ensuring prizes are paid only on valid claims and they are processed in an accurate and efficient manner.

Internal Control Rating

Generally Effective.

We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.



Thank you!

What Did We Recommend?

We noted no findings and therefore had no recommendations related to findings.

We noted five opportunities for improvement, areas where the internal controls or processes are effective as designed but could be enhanced. We have listed the recommendations for the opportunities for improvements below:

1. TLC should consider revising procedure LO-CC-012 Mail-in Claims to explicitly outline the steps Claims Center staff should take to prioritize and expedite time-sensitive claims.
2. TLC should consider updating the procedure LO-CC-013 Processing Validated & Un-Validated Claims from Field Claim Centers to reflect the current operational status, given the full implementation of the Mobile Claims application.
3. TLC should consider collaborating with International Game Technology (IGT) to implement enhanced reporting functionality within the Lottery Operator Gaming System (LOGS). This enhancement should enable comprehensive reporting on all types of claims throughout their entire life cycle, thereby improving transparency and efficiency in the claims process.
4. TLC should consider working with IT and the Lottery Operator to attach debt notification letters to the claim record in LOGS. This attachment should be accompanied by a timestamp indicating when the letter was sent, ensuring accurate tracking and documentation.
5. TLC should consider working with IT and the Lottery Operator to differentiate Employer Identification Numbers (EINs) from Social Security Numbers (SSNs) to reduce the frequency of false positive matches, thereby improving the accuracy of claims processing.

Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	0	0
Improvement Opportunities	5			

Introduction

We performed this audit as part of the approved FY 2025 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Objective, Conclusion, and Internal Control Rating

As such, the business objective of claims and prize management activities is to establish management controls that ensure prize payments are made for valid claims and processed in an accurate and timely manner.

The audit scope was September 1, 2023, to January 31, 2025.

This audit identified no findings and some improvement opportunities, which resulted in an overall internal control rating of **Generally Effective**. **Exhibit 1** describes the internal control rating.

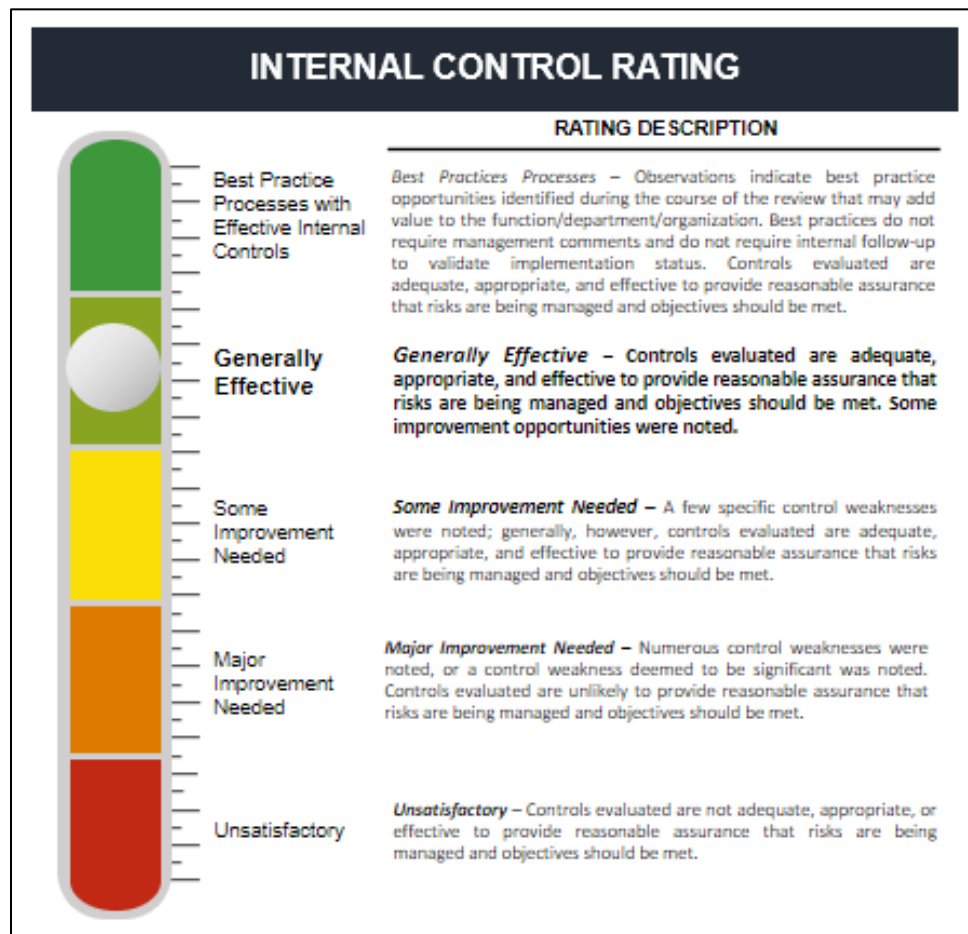


Exhibit 1 – Internal Control Rating

Finding vs Improvement Opportunity

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where internal control or process is effective as designed but can be enhanced.

Findings and Risk Rating Summary

Inherent risk is the business risk associated with the respective function or process if internal controls were not in place or were not effective. Residual risk is Internal Audit's ranking of the remaining risk or likelihood of a negative event occurring with the internal controls and processes in place. See the findings and management response section of this report for a discussion of all issues identified, recommendations, and management responses, as applicable.

Background

The Texas Lottery Commission (TLC) is responsible for managing the claims and prize distribution process for lottery winners in Texas. Lottery prizes can be claimed in person, by mail, or through the mobile application (app) depending on the prize amount. The TLC Validations Team is entrusted with several critical responsibilities to uphold the integrity and transparency of lottery operations. Their primary duties encompass ticket validations, the prioritization of claims, and the successful processing of payments.

The thresholds and methods for claiming prizes in person are as follows:

In Person

- Prizes \$599 or Less: Claim at any Texas Lottery retailer, local claim center, or TLC headquarters in Austin.
- Prizes \$600 up to \$2.5 Million and that are not paid by annuities: Claim at a local claim center or TLC headquarters in Austin.
- Prizes greater Above \$2.5 Million up to \$5.0 Million and that are not paid by annuities: Claim at TLC headquarters in Austin or claim centers in Dallas, Fort Worth, Houston, and San Antonio.
- Prizes greater than \$5.0 Million all Lotto Texas®, Powerball® and Mega Millions® jackpot prizes, and prizes paid by annuities: Claim at TLC headquarters in Austin.

By Mail

- Prizes of \$1 to \$5.0 Million: Claim by mailing to the Austin Claim Center at TLC headquarters.

Mobile

- Prizes of \$600 up to \$5,000: Claim by logging in or registering for a mobile claim, scanning a valid draw or scratch ticket with the Check My Ticket function on the Mobile App if financial institution accepts Zelle® payments.

TLC implemented a mobile app that offers a convenient way for players to claim prizes ranging from \$600 to \$5,000. Players can scan their valid ticket using the "Check My Ticket" function on the app. If the ticket has a prize within the eligible range, the app will present the option to use "Mobile Claims" to redeem the prize. Players then log in or register on the app and submit their claim. Prize payments are made via direct deposit using Zelle®, ensuring a quick, secure transaction. TLC anticipates an increase in mobile app usage once it promotes the app's availability and capability. During the audit scoping period, mobile claims constituted 12.51% of the total claims.

TLC staff validate winning tickets that are not processed through the mobile app by verifying the winner's identity and ensuring all required deductions, such as taxes and debt setoff, are made before awarding payment. TLC strives to process and pay all claims in a timely manner, ensuring a positive experience for

claimants. According to the Texas Lottery Commission's claims website, claimants should anticipate a processing period of up to four weeks for claims submitted via mail.

Exhibit 2 illustrates the TLC Claims Centers and explains the thresholds of each TLC Claim Center across the state.



Exhibit 2 – Texas Lottery Commission Claims Centers

- Claim Centers where prizes less than or equal to \$2,500,000 may be claimed
- ☆ Claim Centers where prizes less than or equal to \$5,000,000 may be claimed

Source: TLC website illustrating claim center locations as of 2/10/25.

Based on our comprehensive understanding of the Texas Lottery Commission (TLC) procedures and detailed inquiries with the Validations Supervisor, we have developed three (3) high-level process flows (Exhibits 3-5).

The Claims Process Flow (**Exhibit 3**) outlines the steps for processing claims, ensuring accuracy and timeliness from submission to payment.

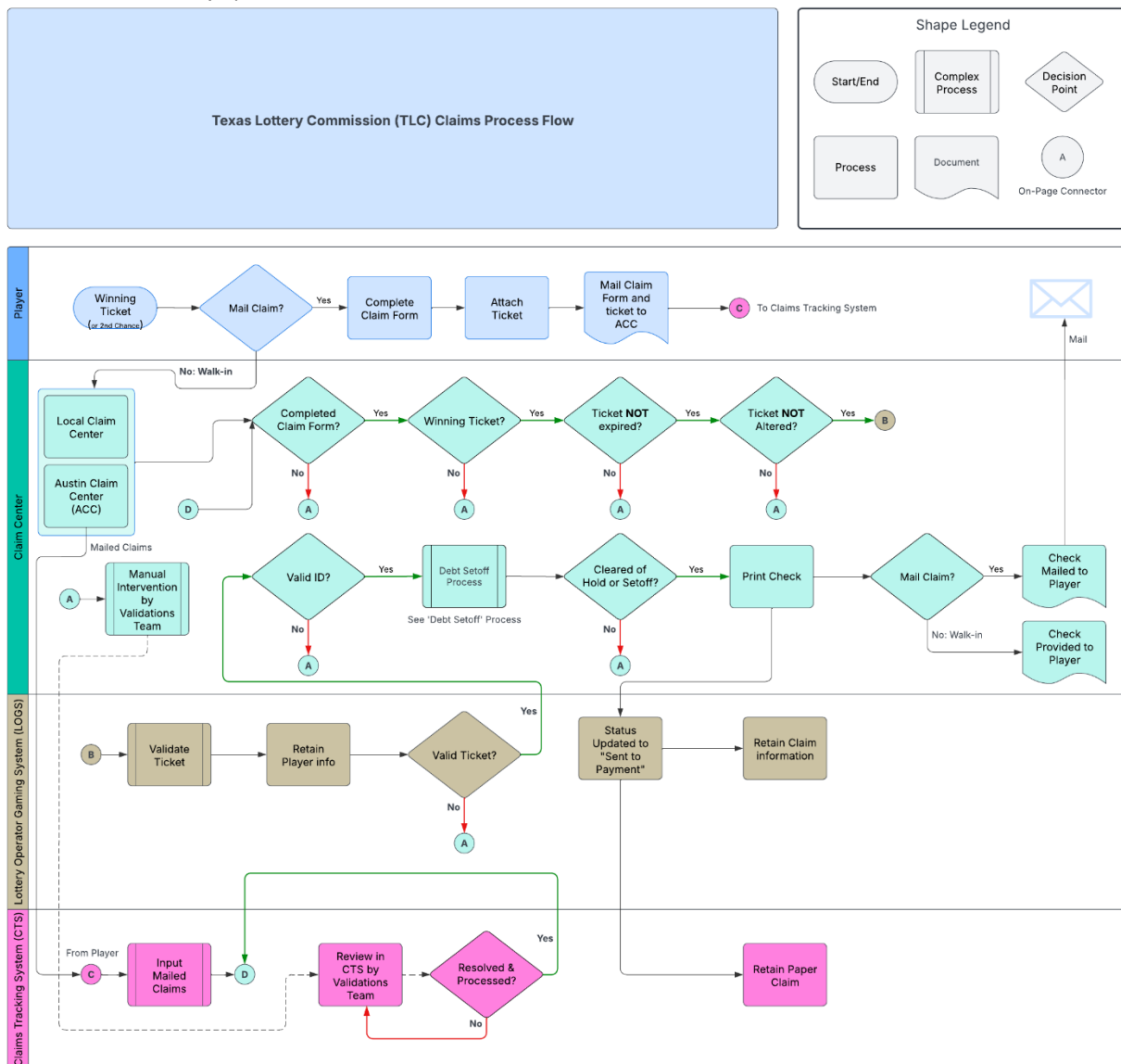


Exhibit 3 – Claims Process Flow

The Mobile Claims Process Flow (**Exhibit 4**) details the procedures for handling claims submitted via the mobile application, emphasizing the integration with systems like Zelle for direct deposit payments and the measures in place for quality assurance and handling failed transactions.

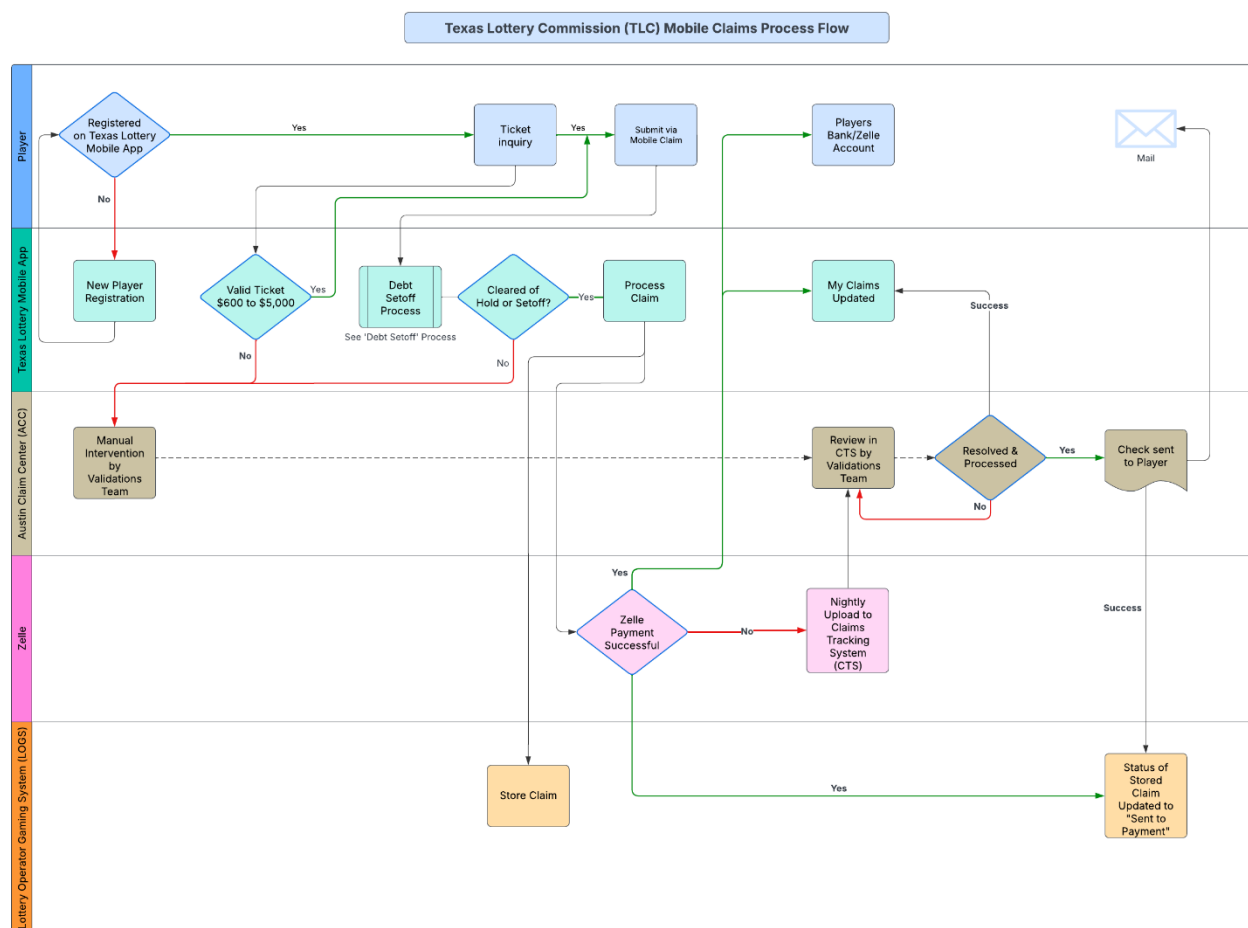


Exhibit 4 – Mobile Claims Process Flow

Lastly, the Debt Setoff Process Flow (**Exhibit 5**) describes the steps taken to identify and resolve any outstanding debts before claimants receive their rewards, including the verification of SSNs and the necessary actions if a debt is detected.

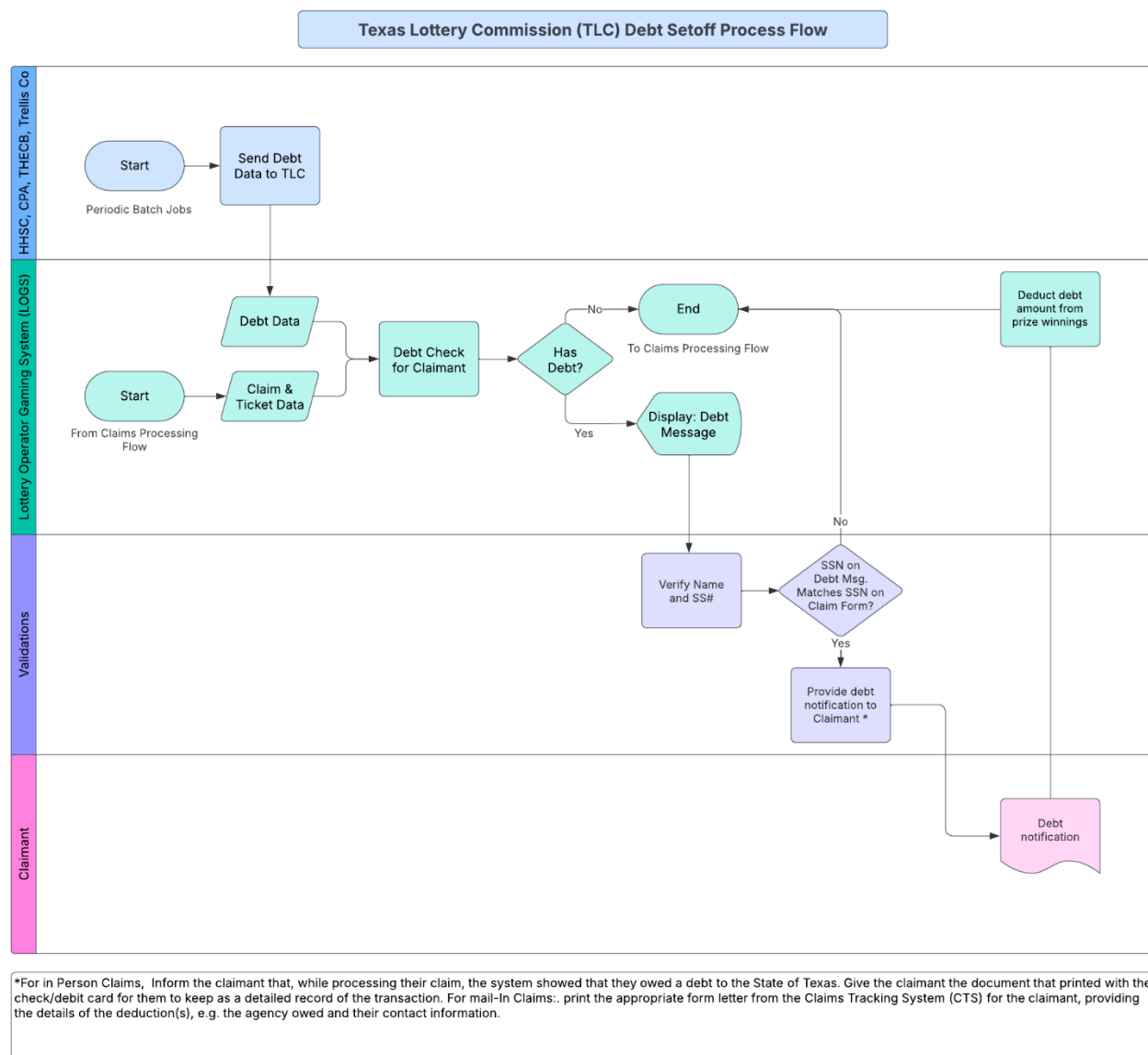


Exhibit 5 – Debt Setoff Process Flow

The processes are designed to enhance efficiency, accuracy, and compliance with TLC's operational standards.

Detailed Findings and Management Response

Business Objective #1: Operations & Technology

The purpose of operations is to ensure that an organization effectively and efficiently achieves its objectives. This involves the implementation of processes and activities that align with the organization's strategic goals. Operations focus on optimizing resources, maintaining high-quality standards, and fostering continuous improvement. It also ensures that risks are managed appropriately, and that the organization can adapt to changing conditions and demands.

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective:

To have a management control structure in place that ensures efficient and accurate claims processing and payment.

Criteria:	<ul style="list-style-type: none"> • COSO Internal Controls-Integrated Framework • Lottery Operations Division Procedure LO-CC-013 - Processing Validated & Un-Validated Claims from Field Claim Centers • Lottery Operations Division Procedure LO-CC-002 – Processing a Scratch/Draw Game Claim
Testing Procedures:	<ul style="list-style-type: none"> • Inquired of the Drawings & Validations Manager to determine the controls in place for prioritizing and processing claims. • Reviewed internal policies and procedures to determine whether TLC's Claims and Prize Management operations aligned with TLC's objectives and state requirements. • Inspected internal policies and procedures to determine guidance for prioritizing and processing claims. • Inspected claims records for a selected sample to assess whether each claim was handled correctly and promptly, while also identifying any inefficiencies that may have contributed to delays in the processing timeline.
Management Controls in Place:	<ul style="list-style-type: none"> • TLC has procedures in place to provide guidance for prioritizing and processing claims. • The integration of the Lottery Operator Gaming System (LOGS) and the Claims Tracking System (CTS) provides the Texas Lottery Commission (TLC) with a comprehensive method for tracking and retaining both physical (paper) and digital (mobile) claims. This robust retention system enables TLC to accurately determine the number of days from claim initiation to payment, verify proof of validation by the TLC Validations Team, confirm successful payment processing, and document payment acknowledgment by the claimant for walk-in claims.

Conclusion:

The TLC Drawings and Validations Department has established procedures to guide prioritizing and processing of claims. While these procedures are generally effective, incorporating the opportunities for improvement (OFIs) below will further enhance their efficiency.

A sample testing of claims within the scope period from September 1, 2023, to January 31, 2025, has determined that the claims were processed both accurately and in a timely manner. No control deficiencies were noted.

Opportunities for Improvement

The LO-CC-012 Mail-in Claims procedure does not clearly state the steps that should be taken to identify and prioritize sensitive and important claims, such as second chance claims, which have a short timeline and must be expedited.

The "MOBILE CLAIMS – REVIEW" section of the procedure LO-CC-013 Processing Validated & Un-Validated Claims from Field Claim Centers, dated July 17, 2023, currently contains language that was relevant during the initial deployment of the TLC Mobile app, and has since changed.

The Texas Lottery Commission (TLC) currently lacks a streamlined method for reporting on the lifecycle of claims from the moment they are received—whether by mail, walk-in, or through the mobile app—until the prize is paid within the LOGS system. Although the relevant data is captured within LOGS for successful mobile and walk-in claims (Mail Claims are captured in LOGS when processed/paid), and within the Claims Tracking

System (CTS) for mail, second chance, and initially failed mobile claims, there is no comprehensive reporting mechanism.

Opportunity for Improvement Recommendations

TLC should consider revising procedure LO-CC-012 Mail-in Claims to clearly state the steps Claims Center staff should take to prioritize and expedite time-sensitive claims. This will enhance the procedure's effectiveness.

TLC should consider updating the LO-CC-013 Processing Validated & Un-Validated Claims from Field Claim Centers procedure to reflect the current operational status since the Mobile Claims application has now been fully implemented. Specifically, the recommendation is to include metrics on the percentage of mobile claims reviews conducted, ensuring the procedure aligns with the ongoing usage and performance of the TLC Mobile app.

TLC should consider collaborating with International Game Technology (IGT) to implement enhanced reporting functionality within the LOGS system. This enhanced reporting should enable comprehensive reporting on all types of claims throughout their entire life cycle, thereby improving transparency and efficiency in the claims process.

Business Objective #2: Compliance & Monitoring

The purpose of compliance objectives is to ensure that entities conduct their operations in accordance with applicable laws and regulations. This involves understanding and adhering to a wide range of legal requirements. Compliance activities help establish minimum standards of conduct that the entity must incorporate into its objectives. Some organizations may choose to set higher performance standards than those required by applicable regulations.

The purpose of monitoring activities is to ensure that an entity's internal control system remains effective over time. This involves ongoing evaluations and periodic assessments to identify and address any deficiencies in the control processes. Monitoring activities help organizations detect and correct issues promptly, ensuring that internal controls continue to operate as intended. By regularly reviewing and updating control measures, entities can maintain a robust control environment that supports operational efficiency, compliance with laws and regulations, and the achievement of organizational objectives.

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective:

To have a management control structure in place to ensure rewards are distributed in accordance with laws and regulations.

Criteria:	<ul style="list-style-type: none"> • COSO Internal Controls-Integrated Framework • Texas Government Code §466.407 Deductions from Prizes • Lottery Operations Division Procedure LO-CC-010 Debt Setoffs
Testing Procedures:	<ul style="list-style-type: none"> • Inquired with Validations Supervisor to determine the controls in place for claims validation. • Inquired with Information Technology Project Manager to determine debt payment process and controls in place. • Inquired with the TLC Office of the Controller (OC) Chief Financial Officer, to determine debt payment process and controls in place.

	<ul style="list-style-type: none"> • Reviewed internal policies and procedures to determine whether TLC's debt setoff process was defined as described and designed to ensure that debt setoffs are detected and paid to appropriate state agencies. • Inspected claims records in Lottery Operator Gaming System (LOGS) for the selected example of claims to determine the automatically calculated debt setoff amount for those claims. • Inspected debt notification letters for the selected example of claims to determine whether the prize winner was notified of debt setoff amounts and reasons, per debt setoff procedures. • Inspected claim validation forms for the selected example of claims to determine whether debt setoff amounts were validated and documented, per debt setoff procedures. • Inspected system-generated setoff register report used by TLC OC to process debt setoff and prize payments.
Management Controls in Place:	<ul style="list-style-type: none"> • TLC receives outstanding debt data from state agencies during automated batch jobs. • LOGS automatically performs checks for outstanding debts based on the claimant's SSN. • OC personnel use a system-generated debt setoff register report to validate setoff amounts owed to state agencies.

Conclusion:

TLC's debt setoff process operated effectively to provide reasonable assurance that state agencies receive payments for outstanding state debts owed by prize winners. During the scope period from September 1, 2023, to January 31, 2025, approximately 2.4% of the total claims had recorded debt setoffs, with an aggregated total of \$4,112,165.77. This represented 0.3% of the \$1,291,539,360.85 total gross prize payment amounts for that period.

Opportunities for Improvement

The Lottery Operator Gaming System (LOGS) does not currently retain a record of when a debt notification letter is sent to a claimant and does not allow Texas Lottery to verify notifications sent through the mobile application. This may cause unnecessary difficulties verifying whether a claimant has been notified of their outstanding debt.

The Lottery Operator Gaming System (LOGS) erroneously matches EINs with claimant SSNs, causing inefficiencies validating claimants for debt setoff purposes.

Opportunity for Improvement Recommendations

TLC should consider working with IT and the Lottery Operator to attach debt notification letters to the claim record in LOGS. This attachment should be accompanied by a timestamp indicating when the letter was sent, ensuring accurate tracking and documentation.

TLC should consider working with IT and the Lottery Operator to differentiate EINs from SSNs to reduce the frequency of false positive matches, thereby improving the accuracy of claims processing.