



TEXAS LOTTERY COMMISSION

Internal Audit Services

AN INTERNAL AUDIT OF

Advertising Operations

Report No. 25-003

February 26, 2025

Our full report contains information that is deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. As such, it is a restricted, confidential, report that is exempt from the requirements of the Texas Public Information Act under the provisions of Texas Government Code, Section 552.139. We prepared this summary report for public release when requested.

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 purpose of this audit was to determine if TLC's advertising operations are efficient and whether resources are used effectively to achieve TLC's objectives for advertising.

The audit scope period was September 1, 2023, to December 31, 2024.

Audit Focus

- Advertising Budget
- Contract Management
- Branding and Promotion Activities
- Partnerships

Audit Conclusions

TLC's internal controls over advertising operations are generally effective in ensuring that TLC's resources are used effectively and efficiently to meet the organization's advertising objectives.

Internal Control Rating

Generally Effective.

What Did We Recommend?

We noted no findings and therefore had no recommendations.

We noted two opportunities for improvement, areas where the internal controls or processes are effective as designed but could be enhanced:

1. Develop and document detailed internal procedures to describe the advertising budget allocation process and the roles and responsibilities for developing and approving the budget.
2. Document the actual date that experiential partner deliverables are provided to better monitor the state of experiential contract activities.

Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	0	0
Improvement Opportunities	2			

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*

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

The purpose of this audit was to determine if TLC's advertising operations are efficient and whether resources are used effectively to achieve TLC's advertising objectives.

The audit scope period was September 1, 2023, to December 31, 2024.

This audit identified no findings, which resulted in an overall internal control rating of **Generally Effective**.

Exhibit 1 describes the internal control rating.

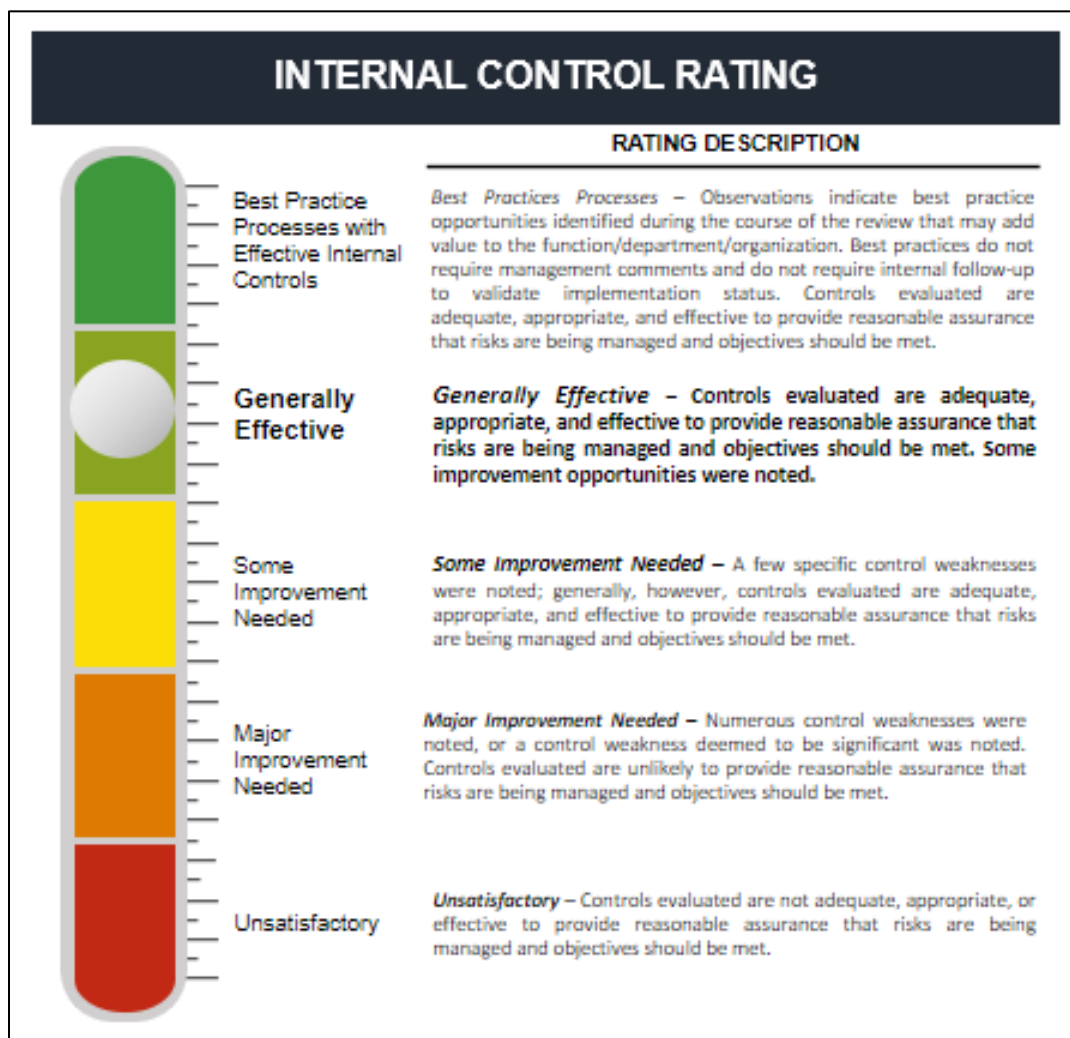


Exhibit 1. Internal Control Rating

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 controls or processes are effective as designed but could 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.

Background

Texas Lottery's Advertising and Promotions Department (Advertising and Promotions) creates and manages advertising campaigns to promote lottery games, increase ticket sales, and generate revenue for the State of Texas. To achieve these objectives, TLC contracts with an advertising media services vendor to perform annual assessments, determine the most effective advertising opportunities, develop a media plan and media buying and stewardship. Based on this plan, the vendor contracts with advertising media providers to ensure the advertisements are placed with the creative designs designed by TLC. Advertising staff monitor the advertising media services vendor's performance to ensure advertising activities occur as planned and that the cost of those activities is an effective use of advertising funds.

The advertising budget has decreased since the 2016-2017 biennium from \$33.5 million per fiscal year to the current budget of \$10 million. This has caused the department to reassess the allocation of the budgeted funds to ensure the efficient and effective use of those funds. **Exhibit 2** shows the relationship between the advertising budget and revenue from ticket sales for the fiscal years 2017 through 2024.

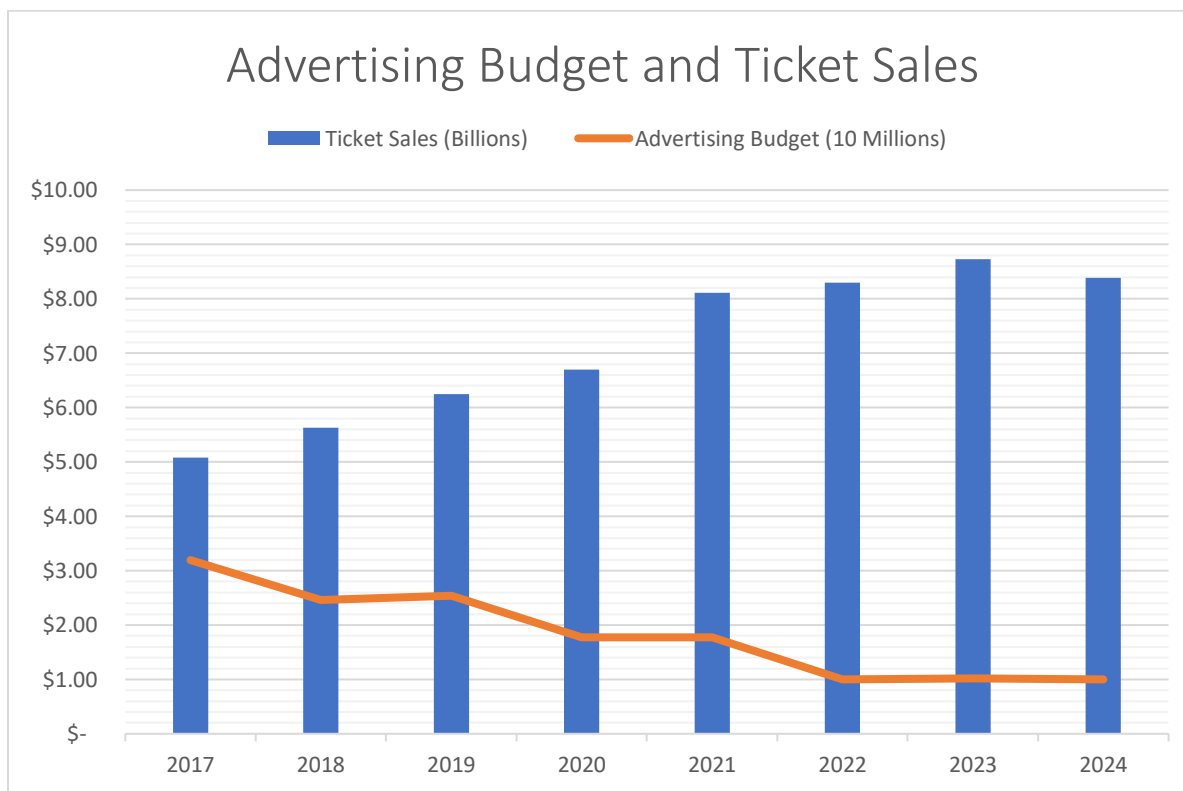


Exhibit 2. Advertising Budget and Ticket Sales

Of the current \$10 million budget, \$6.5 million is allocated to posting and maintaining billboards to promote Powerball and Mega Million jackpots, \$2.3 million is allocated to print media, social network campaigns, and other digital campaigns. The remaining \$1.2 million is budgeted for innovation costs and advertising media services agency fees. TLC's FY24 actual advertising expenditures totaled \$9,984,951.28, or \$15,048.72 under budget. **Exhibit 3** shows the actual FY24 Advertising Media Expenditures.

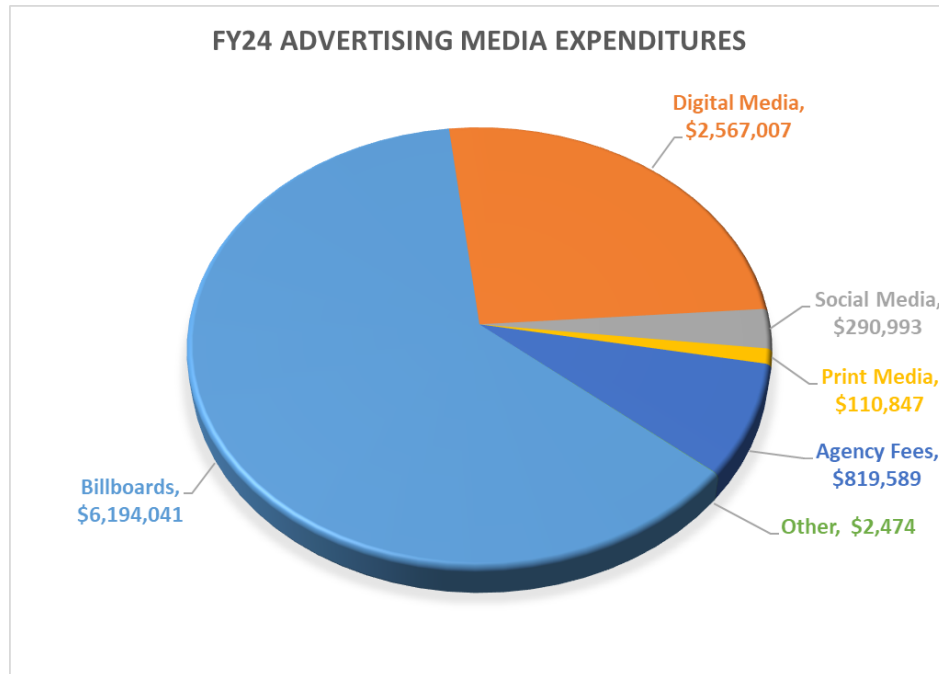


Exhibit 3. FY24 Advertising Media Budget

TLC also promotes lottery games through experiential marketing, which includes sponsorships and promotional services (at sporting events, concerts, etc.) . For these opportunities, TLC contracts with the venue or hosting organizations and Advertising and Promotions staff verify placement of advertisements.

TLC accumulates funds when sanctions are imposed on the lottery operations vendor (IGT) for failure to perform services defined in the Lottery Operations and Services contract. The lottery operations vendor (IGT) uses the sanctioned funds to invest in sponsorships and promotional services with experiential partners. TLC indirectly contracts with experiential partners through the lottery operations vendor (IGT), and the vendor and TLC Advertising and Promotions staff monitor the deliverables from the experiential partners.

Detailed Findings and Management Response

Business Objective #1: Operations

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 governs the funds allocated to advertising and media activities, promoting lottery games and increasing public awareness.

Criteria:	<ul style="list-style-type: none"> • COSO Internal Controls-Integrated Framework • Texas Lottery FY 24 Media Plan • Advertising Media Services Contract and Request For Proposal (RFP)
Control Tests Applied:	<ul style="list-style-type: none"> • Inquired with TLC Advertising and Promotions management to determine the controls in place for funding allocation and advertising media services. • Reviewed internal policies and procedures to determine whether TLC's advertising and promotions processes were defined to meet organizational objectives. • Inspected the FY 24 TLC Media Plan for compliance with contractual requirements. • Compared evidence of actual activities to planned activities for a selected sample of advertising campaigns.
Management Controls in Place:	<ul style="list-style-type: none"> • TLC has assigned responsibilities for the management of advertising and promotions operations. • TLC has formal policies and procedures to define requirements for advertising and promotions, except as noted below. • TLC works with an advertising media services vendor to develop and implement an advertising media services plan to direct funds for advertising and media activities. • TLC monitors campaign activities to ensure that services for funds directed to media activities are performed.

Conclusion(s)

TLC's advertising media services vendor is responsible for allocating the advertising budget funds to different media channels based on their expertise. The advertising media services vendor performs an assessment to determine advertising opportunities and presents their recommendations to TLC through an annual media plan. TLC staff are required to review and approve the proposed media plan. Once approved, the advertising media services vendor is responsible for the performance of the agreed-upon advertising campaigns. Under the current process, advertising funds are allocated to advertising campaigns based on the advertising media services vendor's recommendations.

Opportunity for Improvement

While the responsibilities and processes for allocating advertising budget funds are enumerated in the advertising media services contract, this process is not clearly documented in Advertising and Promotions Departmental operating procedures.

Opportunity for Improvement Recommendation

Develop and document detailed internal procedures to describe the advertising budget allocation process and the roles and responsibilities for developing and approving the budget.

Business Objective #2: Compliance and 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 that ensures contractual obligations are consistently met to enhance overall vendor management efficiency.

Criteria:	<ul style="list-style-type: none"> • Texas Government Code §2251.042 • COSO Internal Controls-Integrated Framework • Advertising Media Services Contract and RFP
Control Tests Applied:	<ul style="list-style-type: none"> • Inquired with TLC Advertising and Promotions management to determine the controls in place to monitor contract compliance. • Reviewed internal policies and procedures to determine whether TLC's compliance and monitoring processes were defined in compliance with regulatory requirements. • Inspected advertising expenditure estimates, purchase orders, and expenditures to determine whether advertising expenditures were approved, documented and paid in compliance with regulatory requirements and internal policies and procedures.
Management Controls in Place:	<ul style="list-style-type: none"> • TLC has assigned responsibilities for monitoring advertising media services contract compliance. • TLC has formal policies and procedures to define requirements for monitoring advertising expenditures. • TLC personnel document and track advertising expenditures in a spreadsheet designed for the purpose. • TLC personnel review expenditure documentation (estimates, purchase orders, and invoices) to ensure that expenditure payments are accurate and timely. • TLC has formal policies and procedures to define requirements for monitoring advertising contract deliverables. • TLC personnel document and track advertising contract deliverables in a spreadsheet designed for the purpose.

Conclusion(s):

The Advertising and Promotions has established controls to monitor advertising media services contracts effectively. Responsibilities are clearly assigned, and formal policies and procedures define how to monitor advertising expenditures and contract deliverables.

Our review of advertising expenditures determined that Advertising and Promotions personnel document and monitor advertising expenditures in spreadsheets. This includes documentation of the planned expenditure

amounts based on the budget and media plan as well as the actual expenditures once the services have been delivered. The expenditures are also validated through a documented review of estimates, purchase orders, and invoices to ensure all expenditures are properly paid through the TLC Office of the Controller.

The controls help ensure that the department maintains oversight and accountability for advertising media services contracts.

Opportunity for Improvement

Experiential partner deliverables are documented and tracked in separate workbooks and shared folders, which causes inefficiencies in determining the overall status of experiential partner deliverables. We noted that TLC maintains the *Advertising Operations Experiential Creative Calendar*, which contains a schedule of planned deliverables, which could be updated to include tracking of the receipt of those deliverables.

Improvement Recommendation

Update the *Experiential Creative Calendar* or create a separate worksheet to track when experiential partner deliverables (for which TLC has a direct contract) were received and validated by Advertising and Promotions.