



# TEXAS LOTTERY COMMISSION

## Internal Audit Services

AN INTERNAL AUDIT OF

## Drawing Studio Operations

Report No. 25-009

FINAL

August 27, 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 Drawing Studio management activities is to establish controls that ensure lottery draw games are performed with integrity and accountability, while implementing applicable policies and procedures to ensure compliance with state regulations, along with the security, integrity, and continuity of lottery game drawings.

The audit scope period was September 1, 2024, to April 30, 2025.

### Audit Focus

- Drawing Studio Operations
  - Game Drawings
  - Business Continuity
  - Succession Planning
- Independent Auditor Oversight and Reporting

### Audit Conclusions

TLC's internal controls over Drawing Studio management are effective in ensuring that lottery draw games are conducted with integrity and accountability. These controls are supported by policies and procedures that promote compliance with state regulations and safeguard the security and continuity of drawing operations.

Through its sound internal control framework, the Texas Lottery Commission demonstrates a strong commitment to regulatory compliance, operational reliability, and the integrity of its lottery draw processes.

### What Did We Recommend?

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

### Internal Control Rating

Best Practices Processes with Effective Internal Controls.

### Number of Findings by Residual Risk Rating

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

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

As such, the business objective of Drawing Studio activities are to establish management controls that ensure that lottery draw games are performed with applicable integrity and accountability, while implementing policies and procedures to ensure compliance with state regulations, along with the security, integrity, and continuity of lottery game drawings.

The audit scope was September 1, 2024, to April 30, 2025.

This audit identified no findings and some improvement opportunities, which resulted in an overall internal control rating of **Best Practices Processes with Effective Internal Controls**. Exhibit 1 describes the internal control rating.

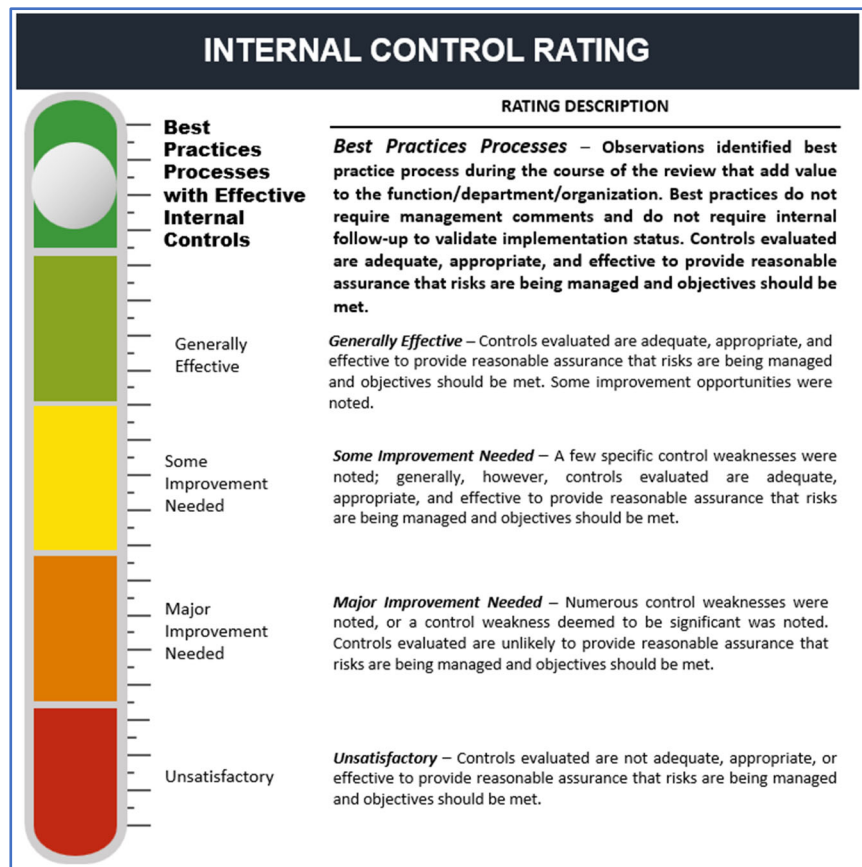


Exhibit 1 – Internal Control Rating

## 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

In July 2022, the Texas Lottery Commission executed a move of equipment and personnel from the prior drawing studio to the newly built drawing studio housed in the George HW Bush Building in Austin, Texas. The new drawing studio is outfitted with office space for personnel, as well as a broadcast room located directly above the studio on the second floor that transmits the live drawings to the public. The new drawing studio follows several physical security best practices, including entryway seals that void when broken, and a door alarm that rings whenever an external door is opened. All existing drawing processes were carried forward to the new location, and personnel undergo extensive training to effectively perform procedures.

Since the TLC's first game drawing, an independent drawing studio auditor has certified each draw game performed. An overview of the independent auditor's responsibilities is shown in **Figure 1**.



**Figure 1 Independent Auditor Primary Responsibilities for Draw Games**

Auditors found that TLC has well-documented internal controls for the lottery drawing process, including best practices. One best practice in place is TLC has developed electronic checklists to document the required drawing processes. These checklists are designed to be step-by-step instructions, with each result entered on the checklist. TLC staff and the independent drawing studio auditor complete the electronic checklists concurrently for each set of drawings being observed (morning, afternoon, evening, and night). The designated

TLC staff member opens a checklist on one computer, and the independent auditor opens a checklist on another computer. The checklists are electronically compared against each other as fields are being completed. The checklists provide a warning when the two do not agree and disables the process from further proceeding until the error(s) have been corrected. At the conclusion of the drawing, the Drawing Coordinator on duty, Drawing Studio staff, and the independent auditor certify the results and sign off on the checklist. These checklists are used for all drawing games.

## Detailed Findings and Management Response

### Business Objective #1: Governance

The purpose of governance is to establish a foundation for an organization's internal control system, ensuring its objectives are met. This foundation is built on integrity and ethical values. Governance involves active oversight, setting strategic objectives, and establishing a clear organizational structure. It also ensures that personnel have the necessary skills and knowledge to perform their duties and are held accountable for their actions.

**Business Risk Rating (Inherent): High**

**Business Risk Rating (Residual): Low**

#### Business Objective:

To have a management control structure in place that ensures lottery draw games are performed with integrity and accountability, while implementing applicable policies and procedures to ensure compliance with state regulations.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Texas Administrative Code, Title 16, Part 9, Chapter 401 - Rule §401.304</li> <li>• Texas Administrative Code, Title 4, Chapter 466 - Rule §466.015</li> <li>• Texas Administrative Code, Title 4, Chapter 466 - Rule §466.401</li> <li>• Texas Lottery Commission Drawing Procedures, dated 2/5/2024</li> </ul>
<b>Testing Procedures:</b>	<ul style="list-style-type: none"> <li>• Inquired of the Drawings Section Supervisor to determine whether TLC established operational transition readiness.</li> <li>• Inspected the TLC Drawing Procedures, dated 2/5/2024 and applicable addendums.</li> <li>• Inspected the Drawings Coordinator and Specialist Career Path, and the Position Descriptions for Drawing Studio Personnel.</li> <li>• Inspected the Draw Team schedules for May and June 2025.</li> </ul>
<b>Management Controls in Place:</b>	<ul style="list-style-type: none"> <li>• TLC has established and maintains policies and procedures to ensure the drawing operations follow Texas regulations.</li> <li>• TLC has established a comprehensive cross-training program to ensure critical tasks are covered by other team members in the event of personnel departures within the Drawing Studio.</li> </ul>

#### Conclusion:

TLC has established and maintains robust, well-documented procedures that ensure Drawing Studio operations are compliant with Texas Administrative Codes §§401.304, 466.015, and 466.401. The Drawing Procedures dated February 5, 2024 provide comprehensive, end-to-end controls—from pre-draw setup to post-draw documentation—supported by secure environments, independent audits, and clearly defined roles. TLC's ongoing updates, including the integration of the gaming system, new equipment, and enhanced maintenance protocols, reflect a proactive approach to operational integrity and regulatory alignment.

TLC has proactively adopted structured approaches to succession planning to ensure continuity, professional growth, and leadership readiness across its Drawings Section. Specifically,

- Leadership Succession Planning - Senior Draw Coordinators are actively trained to assume the responsibilities of the Drawings Section Supervisor, including signatory authority. To reinforce leadership readiness, TLC has implemented a weekly rotation of supervisory duties among these coordinators. This hands-on experience ensures that future leaders are well-prepared to step into critical roles when needed.
- Structured Career Ladder - TLC maintains a clearly defined advancement pathway from Draw Specialist to Draw Coordinator. This structured progression supports employee retention and fosters professional development by offering transparent and attainable growth opportunities.

Additionally, TLC has demonstrated strong operational transition readiness and workforce resilience. The use of an automated scheduling rotation system in CAPPS, paired with coordinator oversight and supervisory review, ensures precise and accountable draw scheduling. Monthly schedules reflect a balanced deployment of Lottery Drawing Specialists across key roles, accommodating operational needs such as agency closures, special events, and staff availability. This structured approach supports both procedural compliance and the uninterrupted execution of lottery drawings.

Opportunity for Improvement Recommendations

None identified.

## Business Objective #2: 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 the security, integrity, and continuity of lottery game drawings.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Texas Lottery Commission Drawing Procedures, dated 2/5/2024.</li> <li>• COSO Internal Controls-Integrated Framework</li> </ul>
<b>Testing Procedures:</b>	<ul style="list-style-type: none"> <li>• Inspected internal policies and procedures to determine consistency, compliance, and operational integrity.</li> <li>• Observed operations at the TLC warehouse Drawing Studio to assess the agency's preparedness to execute scheduled lottery drawings in the event of system failures or outages at the primary draw studio location.</li> <li>• Observed performance of controls in place and inspected drawing checklists to ensure that draw ball sets are always secured and accounted for.</li> <li>• Observed performance of controls in place and inspected drawing checklists to ensure drawing machines are always secure.</li> <li>• Observed the independent auditor's procedures and inspected drawing checklists to determine compliance with processes.</li> <li>• Observed the processes in place and inspected drawing checklists to perform game draws to determine whether draw procedures were consistently followed in practice.</li> </ul>

	<ul style="list-style-type: none"> <li>Observed operations onsite at the TLC backup Drawing Studio location on 06/05/2025 to assess the agency's preparedness to execute scheduled lottery drawings in the event of system failures or outages at the primary site.</li> </ul>
<b>Management Controls in Place:</b>	<ul style="list-style-type: none"> <li>TLC has established and maintains comprehensive, well-documented processes and procedures guiding Drawing Studio operations to ensure consistency, compliance, and operational integrity.</li> <li>TLC has established a fully equipped secondary drawing studio location, enabling the continuation of scheduled lottery drawings in the event of system failures or outages at the primary Drawing Studio location.</li> </ul>

**Conclusion:**

The TLC has implemented robust and well-documented protocols, which include critical systems (Information and Computer Sciences (ICS) Gaming Lab, which supports the Multi-State Lottery Association (MUSL) infrastructure), to safeguard the physical security of drawing operations at both its primary and secondary Drawing Studios. The secondary Drawing Studio location was established to ensure uninterrupted lottery operations in the event of disruptions at the primary Drawing Studio location and is fully equipped.

Through its comprehensive security framework and proactive contingency planning, TLC demonstrates a strong commitment to operational resilience and the integrity of its lottery systems.

Opportunity for Improvement Recommendations

None identified.