



Texas Lottery Commission Internal Audit Services

FY 2025 Annual Internal Audit Report



McConnell Jones
Diverse Thinking | Unique Perspectives



TABLE OF CONTENTS

Section	Page Number
I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET	2
II. FISCAL YEAR 2025 INTERNAL AUDIT PLAN STATUS	2
III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED	3
IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)	4
V. FISCAL YEAR 2026 INTERNAL AUDIT PLAN	6
VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2025	7
VII. REPORTING SUSPECTED FRAUD AND ABUSE	7





McConnell Jones

October 28, 2025

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the fiscal year (FY) 2025 Annual Internal Audit Report for the Texas Lottery Commission (TLC). This annual internal audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102).

TLC operated as an independent agency during FY2025. Therefore, this report is issued on their behalf although operations have been transferred to the Texas Department of Licensing and Regulation as of September 1, 2025.

TLC engaged McConnell & Jones LLP (MJ) on September 1, 2021, to provide internal audit services to the TLC in accordance with The Texas Internal Auditing Act, pursuant to the Request for Proposals (RFP) issued February 23, 2021. MJ submits this fiscal year 2025 Annual Internal Audit Report on behalf of the TLC Commissioners.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for their governing board. The purpose of the Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the FY 2024 Annual Internal Audit Report is due November 1, 2024.

Please contact Darlene Brown at 713.968.1600 or Ms. Courtney Arbour if you should have any questions about this audit report.

Sincerely,

Darlene Brown, CIA, CFE
Partner

6805 N. Capital of Texas Highway
Suite 266
Austin, TX 78731
Phone: 713.968.1600

WWW.MCCONNELLJONES.COM



I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency Annual Internal Audit Plans and Annual Internal Audit Reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, McConnell & Jones LLP (MJ) will ensure the required Annual Internal Audit Plan, Annual Internal Audit Report and any other required internal audit information is provided to the Texas Department of Licensing and Regulation for posting to their website.

II. FISCAL YEAR 2025 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2025 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the TLC commissioners. The table below reflects the status of the approved FY 2025 Internal Audit Plan as of August 31, 2025.

FY 2025 Annual Internal Audit Plan Status

Task #	Description	Report Number	Report Date	Report Title	Audit Status
1	Advertising Operations	25-003	Feb. 26, 2025	Advertising Operations Audit	Completed
2	Information Technology Software Systems Development Lifecycle Advisory Engagement	25-004	September 29, 2025	Information Technology Software Systems Development Lifecycle	Completed
3	Budget Function	25-005	October 8, 2025	Budget Function	Completed
4	Rule Making Process	Postponed to 2026			
5	Tax Collections and Annuity Payments	25-007	Draft Issued October 10, 2025.	Tax Collections and Annuity Payments	Completed
6	Data Protection	Cancelled due to move to TDLR			
7	Drawings Studio	25-009	Aug. 26, 2025	Drawings Studio	Completed
8	Enforcement Operations	25-010	October 7, 2025	TLD's Enforcement Division Operations	Completed
11	Information System User Access	On-Going. However, no exceptions have been noted during quarterly testing.			



Task #	Description	Report Number	Report Date	Report Title	Audit Status
12	Follow-Up on Prior Audit Findings	On-Going			
13	Monitor Ethics Hotline	On-Going			
14	External Audit / Review Assistance	Assistance Provided as Requested			
15	Update Risk Assessment & Annual Audit Plan	Completed			
16	Annual Internal Audit Report	Completed			
17	Audit Communications, Committee Meetings, Project Management	On-Going			

Deviation from Fiscal Year 2025 Internal Audit Plan

MJ worked with Texas Lottery Commission leadership to determine the most effective use of internal audit resources given the Legislative action to dissolve the Commission and transfer operations to the Texas Department of Licensing and Regulation. As a result, the following deviations from the FY2026 Annual Audit Plan occurred:

- The data protection audit was cancelled.
- The Rule Making Process audit was postponed to FY2026.
- The Budget Function audit changed to an advisory engagement.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit conducted an advisory services engagement to evaluate TLC's Information Technology Software Systems Development Lifecycle (SDLC) advisory engagement assess TLC's SDLC policies, procedures, and practices to identify risks, control weaknesses, inefficiencies, and opportunities for improvement to strengthen existing controls and ensure consistency and operating effectiveness of SDLC processes. We provided four (4) low-risk opportunities to enhance existing documentation.

We also changed the focus of the Budget Function Audit to an advisory engagement to review processes and activities that need to be considered in developing the budget considering the operations transfer to the Texas Department of Licensing and Regulation. We noted two opportunities for improvement to enhance internal controls or processes. These were:

1. Financial Operations should consider reviewing the Budget Function procedures to ensure they are current and aligned with existing operational practices.
2. Financial Operations should consider including executive assistants in emails sent to division directors when communicating deadlines for budget items. This minor adjustment could help ensure timely follow-up and improve coordination within divisions.



IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987 and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA.

After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that except for deficiencies described, the auditing practice of McConnell & Jones LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2023, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. McConnell & Jones LLP has received a peer review rating of pass with deficiencies.

Issues noted by the peer reviewer were related to another practice line in the firm and not the risk advisory services practice. MJ developed an action plan to remediate the deficiencies noted. We provide a copy of our most recent peer review letter below.



Internal Use



V. FISCAL YEAR 2026 INTERNAL AUDIT PLAN

MJ will conduct six scheduled audits, monitor network access, update the risk assessment, conduct prior audit finding follow-up activities, prepare the FY 2027 Annual Internal Audit Plan and prepare the FY 2026 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **1,911 hours**. The planned audits, risk ranking, and estimated hours are summarized in the table below. MJ will work with leadership on the timing for each audit.

FY 2026 Annual Internal Audit Plan Activities

Description	Risk Ranking	Estimated Hours
Sales Tracking and Reporting <ul style="list-style-type: none"> ✓ Data Integrity ✓ System Interfaces ✓ Key Activities and Deadlines ✓ Responsibilities 	High	286
Governance Structure, Staffing, and Responsibilities <ul style="list-style-type: none"> ✓ Organization Structure (Lottery) and TDLR Oversight Functions ✓ TDLR Shared /Support Services Division of Responsibilities and Expense Allocations ✓ Lottery Staffing & Responsibilities 	High	270
Legislative Mandates Compliance and Sunset Review <ul style="list-style-type: none"> ✓ Recommendations Implementation ✓ Implementation Status of Applicable Legislative Changes ✓ Implementation Status of Enacted Sunset Recommendations 	High	360
Rule Making Processes <ul style="list-style-type: none"> ✓ Rule Identification ✓ Rule Review ✓ Rule Update Process, Including Posting for Public Comments 	High	176
Retailer Compliance and Monitoring <ul style="list-style-type: none"> ✓ Retailer Compliance Requirements ✓ Retailer Activity Monitoring ✓ Retailer Violation Processes 	High	220
Retailer Bonus and Incentive Programs <ul style="list-style-type: none"> ✓ Retailer Incentive Program Changes ✓ Retailer Bonus Program Processes 	High	280
Information System User Access Monitoring <ul style="list-style-type: none"> ✓ Quarterly Network Access Testing (Lottery Applications) 	High	51
Follow-Up On Prior Audit Findings	Required	24
Monitor Fraud/Complaint Hotlines Lines	Required	10
External Audit / Review Assistance	Required	10
Update Risk Assessment & Develop Audit Plan	Required	50
Annual Audit Report	Required	10



Description	Risk Ranking	Estimated Hours
Coordination with TDLR Internal Audit, Audit Communications, Commissioner & Committee Meetings, Project Management	Required	160
Total Hours		1,911

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2025

The following represent external audit services that were procured by the Texas Lottery Commission or were ongoing in fiscal year 2025.

<i>Audit / Review</i>	<i>Auditor</i>
Drawings Studio Independent Auditor Certifications	BKD Partners
Annual Financial Audit Services	Weaver and Tidwell, LLP
Internal Audit Services	McConnell Jones

VII. REPORTING SUSPECTED FRAUD AND ABUSE

Texas Lottery Commission has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The Texas Lottery included a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the Texas Lottery Commission website. In addition, information on reporting suspected fraud to the State Auditor's Office is included in the agency's policies and procedures.

The Texas Lottery utilizes EthicsPoint Reporting. EthicsPoint is a third-party vendor that provides an Internet and telephone-based reporting system that can be accessed by Commission employees. This system is intended to supplement the existing avenues within the Commission for employees to report concerns. All EthicsPoint complaints are reviewed by the agency's General Counsel and reported to SAO as applicable.