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**State Auditor**

An Audit Report on

**The LatinWorks Marketing  
Contract at the Texas Lottery  
Commission**

June 2014

Report No. 14-036



An Audit Report on

# The LatinWorks Marketing Contract at the Texas Lottery Commission

SAO Report No. 14-036  
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## Overall Conclusion

The Texas Lottery Commission (Commission) adequately planned, procured, and formed its advertising contract with LatinWorks Marketing. The Commission also managed that contract in accordance with statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and Commission policies and procedures to help ensure that the State's interests were protected.

The Commission awarded the advertising contract to LatinWorks Marketing in May 2012 for \$104,019,222. The contract is valid through the end of fiscal year 2016.<sup>1</sup> The General Appropriations Act allocates \$32 million each fiscal year to the Commission for advertising services.

The Commission generally managed and monitored the advertising contract to verify that LatinWorks Marketing performed according to the terms of the contract. However, the Commission should improve its review of the contractor's year-end report, evaluate the contractor's performance against goals, and verify the services provided. For example, the contractor inappropriately excluded four advertising campaign projects from the year-end media review report provided to the Commission. Additionally, the Commission did not evaluate the contractor's performance against the goals and planned budget it established at the beginning of the year.

The Commission adequately reviewed contractor billings to ensure that it paid only valid invoices that included required supporting documentation in accordance with applicable statutes, rules, Comptroller's Office requirements, and Commission policies and procedures. However, the Commission should strengthen its processes to ensure that it does not inappropriately pay state

### Contract Management Framework

- **Plan** - Identify contracting objectives and contracting strategy.
- **Procurement** - Fairly and objectively select the most qualified contractor(s).
- **Contract Formation/Rate/Price Establishment** - Ensure that the contract contains provisions that hold the contractor(s) accountable for producing desired results, including all relevant terms and conditions as well as establish processes that are cost-effective and aligned with the cost of providing goods and services.
- **Contract Oversight** - Monitor and enforce the terms of the contract.

Source: *State of Texas Contract Management Guide*, Version 1.9.

<sup>1</sup> According to the contract terms, the Commission can extend the current contract for two additional periods of two years. The Commission estimates the contract value with those extensions would be \$230,787,222.

sales tax. Auditors identified two sampled invoices that combined included more than \$100,000 paid by the Commission in state sales tax, even though the Commission is exempt from paying state sales tax. According to the Commission, it has paid a total of \$245,557 in state sales tax to the contractor since the beginning of the contract. The Commission should consult with the Comptroller's Office to recoup the state sales tax paid and to determine when, if ever, it should pay state sales tax in the future.

Auditors communicated less significant issues related to the contract's function and oversight areas to the Commission separately in writing.

## ***Summary of Management's Response***

The Commission agreed with the recommendations in this report.

## ***Summary of Objectives, Scope, and Methodology***

The objectives of this audit were:

- To determine whether the Commission planned, procured, and established the selected contract for goods and services in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- To determine whether the Commission managed and monitored the selected contract for goods and services to help ensure that the contractor performed according to the terms of the contract and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

The scope of the audit covered the Commission's advertising services contract with LatinWorks Marketing. Auditors tested transactions from the inception of the current contract in May 2012 through December 31, 2013.

The audit methodology consisted of collecting and reviewing planning, procurement, and contract formation documentation, including the advertising services contract; conducting interviews with Commission staff; reviewing statutes, rules, Comptroller's Office requirements, and Commission policies and procedures; and performing selected tests and other procedures.

Auditors used expenditure information in the Uniform Statewide Accounting System and the Commission's MIP accounting system and performed analysis to determine completeness of the data. Auditors determined that data was sufficiently reliable for the purposes of this audit. Additionally, auditors reviewed user access to and segregation of duties for the Commission's

accounting system. Auditors did not perform any additional information technology work at the Commission.

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# Detailed Results

Chapter 1

## ***The Commission Planned, Procured, and Formed the Advertising Contract According to Applicable Statutes, Rules, Comptroller’s Office Requirements, and Commission Policies and Procedures***

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The Texas Lottery Commission (Commission) planned, procured, and formed the \$104 million contract awarded in May 2012 for advertising services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller’s Office) requirements, and Commission policies and procedures to help ensure that the State’s interests were protected.

The *State of Texas Contract Management Guide*<sup>2</sup> requires several planning and procurement steps to help state agencies ensure that they are more successful in their contracting processes. While the Commission implemented policies and procedures to align with most of those steps, it should ensure that its policies and procedures require purchasing personnel to complete a conflict of interest disclosure statement for procurements.

**The Commission followed the required processes to plan the advertising contract according to applicable statutes, its policies and procedures, and other requirements.**

The Commission complied with applicable state laws, its policies and procedures, and other requirements while planning the advertising contract it awarded to Latinworks Marketing in May 2012. Specifically, for the contract audited, the request for proposals appropriately included the following:

- Contract objectives, which were documented as a list of services required.
- All 10 applicable solicitation elements required by the *State of Texas Contract Management Guide* (see text box).
- All six applicable lessons learned from the prior advertising contract.
- State rules for subcontracting opportunities.
- Management approval prior to advertising the solicitation.

<b>Applicable Solicitation Elements</b>
<ul style="list-style-type: none"><li>▪ Quantity.</li><li>▪ Quality.</li><li>▪ Contractor qualifications.</li><li>▪ Evaluation criteria.</li><li>▪ Best value considerations.</li><li>▪ Proposal submission requirements.</li><li>▪ Monitoring.</li><li>▪ Reporting.</li><li>▪ Inspection and testing.</li><li>▪ Final acceptance.</li></ul>
Source: <i>State of Texas Contract Management Guide</i> , Version 1.9, Chapter 3.

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<sup>2</sup> *State of Texas Contract Management Guide*, Version 1.9.

In addition, the Commission complied with other requirements. Specifically:

- The Commission's contract managers and purchasing staff complied with certification and training requirements in the *State of Texas Procurement Manual*. The Commission's purchasers and contract managers in contracting and procurement from September 1, 2011, through December 31, 2013, had the required training and certifications for their positions.
- The Commission appropriately completed two risk assessments prior to the solicitation to identify risks, constraints, services, and oversight needed for contract terms.
- The Commission correctly selected the request for proposal procurement method for the advertising services contract.

**The Commission generally procured the advertising contract according to applicable statutes, rules, requirements, and its policies and procedures.**

The *State of Texas Contract Management Guide* requires several planning and procurement steps to help state agencies be more successful in their contracting processes. While the Commission implemented policies and procedures to align with most of those steps, its policies and procedures do not require purchasing personnel to complete a conflict of interest disclosure statement for procurements even if there is no conflict.

As a result, the Commission's purchasing personnel did not complete conflict of interest disclosure statements for procurements at the Commission. The *State of Texas Contract Management Guide* and Texas Government Code, Section 2262.004, state that employees involved in preparing a solicitation must disclose in writing any conflict of interest or lack of any conflict of interest prior to awarding a major contract. The Commission did not perform a sufficient review of that statute and the instructions to purchasing personnel for completing the conflict of interest disclosure statements; therefore, the Commission did not ensure that its internal policies aligned with statute. Although auditors did not find any evidence that conflicts of interest existed, there is a potential for the Commission to have unreported conflicts of interest with contractors.

The Commission adequately completed the following procurement requirements to ensure compliance with applicable state laws, rules, requirements, and its policies and procedures:

- Solicited bidders in accordance with state laws and rules by advertising the proposal on the appropriate Web site and sending notices to all eligible vendors on the State's Centralized Master Bidders List.

- Conducted its bid opening process in accordance with its policies and procedures.
- Ensured that all evaluation team members signed the required non-disclosure statement form that required evaluators to not divulge information concerning the proposals.
- Ensured that all four proposals met the minimum qualifications and were submitted by the due date.
- Selected LatinWorks Marketing as the winning bidder because it was the highest scored proposer.
- Documented its negotiations with LatinWorks Marketing.

The Commission formed the advertising contract according to applicable statutes, requirements, and its policies and procedures.

The Commission formed the advertising contract in accordance with applicable statutes, Comptroller's Office requirements, and Commission policies and procedures to help protect the State's interests. Auditors determined that the Commission's advertising contract contained all essential clauses and recommended terms specified in statute and the *State of Texas Contract Management Guide*.

Additionally, the Commission selected the appropriate payment methodology, designed a change management process in accordance with the *State of Texas Contract Management Guide*, and properly reported the advertising contract to the Legislative Budget Board as required by statute.

### **Recommendation**

The Commission should revise its policies to require all purchasing personnel involved with a contract to sign a conflict of interest disclosure statement prior to awarding a major contract.

### **Management's Response**

*The agency concurs with the recommendation.*

- *The agency has implemented a practice of requiring all purchasing personnel involved with a contract to sign a conflict of interest disclosure statement.*

*Responsible Management: Administration Division Director*

*Target Date: Completed – April 2014*

- *This practice will be incorporated in the agency's "Preparing a Request for Proposals" Procedure.*

*Responsible Management: Administration Division Director*

*Target Date: June 30, 2014*

## ***The Commission Adequately Monitored the Advertising Contract to Verify Compliance with Contract Terms; However, It Should Review the Contractor's Year-end Report, Evaluate Performance Against Goals, and Inspect Services***

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The Commission generally managed and monitored the LatinWorks Marketing contract for goods and services to ensure that the contractor performed according to contract terms. The Commission adequately reviewed weekly, monthly, and quarterly reports that detailed contractor/advertising

performance (see text box for additional information). However, it should ensure that the contractor's year-end media review report matches the Commission's accounting system. In addition, the Commission should create a process to evaluate the contractor's actual performance against goals. The Commission also should periodically confirm that purchased television, radio, and billboard advertisements were appropriately placed in accordance with advertising invoices.

**The Commission adequately managed and monitored the contract with LatinWorks Marketing; however, it should improve its review of LatinWorks Marketing's yearly reports.**

LatinWorks Marketing's advertising performance reports that auditors reviewed were submitted in a timely manner and contained documentation of Commission review, the accuracy of gross rating points<sup>3</sup> in certain reports, and compliance with other contract requirements. However, auditors identified the following issues related to the Commission's monitoring of the LatinWorks Marketing contract:

### **Contracted Deliverables**

Deliverables required by the advertising contract are categorized in the following areas:

#### Weekly and Quarterly Campaign Monitoring:

- Status report.
- Media buy report.
- Post-buy report.
- Post-campaign/promotional report.
- Print audit report.

#### Monthly Expenditure Monitoring:

- Approved expenditure report.
- Historically underutilized business subcontracting plan prime contractor progress assessment report.

#### Yearly Monitoring:

- Advertising plan.
- Media plan.
- Year-end media review report.
- Storage inventory report.

- The fiscal year 2013 year-end media review report that auditors reviewed inappropriately excluded four campaign projects that totaled \$5,023,255. The year-end report is a monitoring tool that compares planned media expenditures to actual media expenditures. The exclusion of those four campaign projects limited the Commission's ability to assess the contractor's performance. Commission management stated that it did not identify that it had not included those four advertising campaign projects because it did not compare report expenditures to its accounting system. Chapter 7 of the *State of Texas Contract Management Guide* states that adequate monitoring of the contractor is a key function of proper contract administration.

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<sup>3</sup> Gross rating points are a measure of the total amount of the advertising exposures produced by a specific media vehicle or a media schedule during a specific period of time.

- The Commission does not have a process to evaluate the contractor's performance against goals, strategies, and estimated budgets established in the advertising and media plans. However, the Commission does compare planned expenditures to actual expenditures for certain media advertisement activities. Neither the Commission nor the contractor is required to evaluate yearly performance because there is no such requirement in the contract terms or Commission policies and procedures. However, not monitoring the contractor's performance against stated goals limits the Commission's ability to effectively evaluate contractor performance in meeting strategic goals like increasing sales.<sup>4</sup> As noted above, the *State of Texas Contract Management Guide* states that adequate monitoring of the contractor is important to ensure proper contract administration.

**The Commission should inspect certain services for which it pays to ensure that it receives those services.**

The Commission has designed contract monitoring policies and procedures to verify that it receives expected services and that the contractor is complying with contract terms, and to determine when the contract is complete and help ensure it performs close-out procedures. However, the Commission should strengthen its monitoring procedures to increase its verification of advertising services. Specifically, the Commission does not visually inspect television, radio, and billboard advertisements for which it has paid to verify that those advertisements were actually broadcasted or posted before paying for them.

Instead, the Commission relies on the television and radio stations' automated systems and subcontractor billboard invoices to determine the accuracy of advertisement placements. As a result, state resources may be wasted if paid advertisements do not actually run or reach the intended audience. Chapter 7 of the *State of Texas Contract Management Guide* states that approvals of goods and services should be provided after those goods and services are inspected and accepted.

**The Commission adequately uses most contract deliverables to ensure compliance with contract terms.**

Auditors verified that the Commission adequately reviewed weekly, monthly, quarterly, and campaign-related contract deliverables related to managing and monitoring the advertising contractor's compliance with contract terms. Specifically:

- The Commission received weekly status reports about the advertising campaigns and contractor activities. Those status reports are the basis for a

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<sup>4</sup> LatinWorks Marketing's fiscal year 2014 advertising plan with the Commission states that the following are key goals: (1) exceeding year-over-year sales, (2) driving the average year-over-year participation, and (3) continuing to contribute \$1 billion to the Foundation School Fund. The advertising plan was completed on May 22, 2013, and the goals are for activities performed during fiscal year 2014.

weekly meeting between Commission staff and the contractor's advertising staff. The Commission also receives an email recap of the weekly meeting discussions.

- The Commission received at least three creative concepts<sup>5</sup> for each of the two advertising campaigns that auditors tested. Auditors reviewed the Commission's feedback on creative options for another campaign, indicating that the Commission adequately ensured that the contractor adhered to the Commission's values<sup>6</sup> and that the State received the best value.
- The Commission monitored the planned, purchased, and actual/received rating points for its television and radio advertising to ensure that it effectively spent advertising dollars.
- The Commission monitored monthly approved expenditures to ensure that the contractor and the Commission agreed on amounts expended and the amounts remaining in specific campaign budgets/purchase orders.

During this audit, to help improve its monitoring of advertising, the Commission requested a study of media buys and their cost-effectiveness to determine whether the Commission could spend its advertising dollars more effectively.

During this audit, the Commission also received the *Impact of Advertising on Lottery Sales in the State of Texas* report<sup>7</sup>, which discusses how advertising affects sales. Increasing sales is a key goal in the Commission's fiscal year 2014 advertising plan.

In addition, auditors verified that the Commission ensured that the advertising contractor complied with historically underutilized business (HUB) requirements in Texas Government Code, Section 2161.253, and that the contractor met the HUB target established in its HUB subcontracting plan.

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<sup>5</sup> Creative concepts are different creative ideas for an advertising campaign the contractor presented to the Commission.

<sup>6</sup> The Commission provides guidelines in its advertising services contracts to "ensure all advertising efforts shall be conducted in a manner commensurate with the dignity and integrity of the State of Texas." The guidelines include provisions that advertising should not unduly influence; show lifestyle change for Lottery winners; display guns, alcohol, and tobacco; or degrade any persons or groups.

<sup>7</sup> The report was written by Dr. Ramkumar Janakiraman, associate professor of marketing at Texas A&M University, and released in March 2014.

## Recommendations

The Commission should:

- Reconcile the year-end media review report using its internal accounting system to verify that all appropriate campaign projects are captured.
- Monitor or require the advertising contractor to evaluate performance against advertising and media plan goals on an annual basis.
- Periodically sample purchased television, radio, and billboard advertisements to verify the placement of Commission advertisements.

## Management's Response

*The agency concurs with these recommendations.*

- *To ensure all advertising expenditures are accurately reflected for each fiscal year, the agency will develop and implement a procedure to reconcile the year-end media review report to the agency's internal accounting system.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: August 31, 2014*

- *The agency will work with the advertising contractor to develop a process to evaluate and report on performance against stated annual advertising/media plan goals.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: August 31, 2014*

- *The agency will develop and implement a procedure for the periodic sampling of purchased television, radio and billboard advertising.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: August 31, 2014*

## ***Contractor Billings Were Valid and Properly Supported; However, the Commission Should Ensure That It Does Not Pay State Sales Tax on Certain Invoices***

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The Commission complied with the billing requirements in the *State of Texas Contract Management Guide*, its own policies and procedures, and specific terms in its advertising contract to verify that the contractor's billings were valid and supported. Auditors tested 30 contractor payments totaling \$4,822,201 and determined that they were properly supported, authorized, allowable, paid in a timely manner, and reasonable according to the contract terms. Additionally, the Commission adequately reviewed contractor invoices, frequently requiring clarification or additional documentation. However, the Commission should strengthen its processes to ensure that it does not inappropriately pay state sales tax for certain advertising services.<sup>8</sup>

**The Commission paid state sales tax on certain invoices.** Auditors identified two sampled invoices that combined included more than \$100,000 in state sales tax that the Commission paid, even though the Commission is exempt from paying state sales tax. According to the Commission, it has paid a total of \$245,557 in state sales tax to its advertising contractor since the beginning of the contract.

According to the Commission, the advertising contractor determined that it had an obligation to pay state sales tax to one vendor for equipment that was required in certain billboard advertising services, even though the equipment was solely for the Commission's use. The Commission provided documentation that was created during the time of the contract procurement process showing that its staff discussed the issue and decided the state sales tax was an allowable cost of providing the advertising services, and the Commission therefore reimbursed the contractor for that portion of the cost based on the contractor's determination of its state sales tax obligations. It is important that the Commission make its own determination after consulting with the Comptroller's Office about any obligation it has to pay state sales tax.

**The amount of state sales tax was not identified on most invoices.** Because the Commission determined in advance that it would pay state sales tax on certain equipment related to billboard advertising, it required the advertising contractor to submit invoices that included only the final price, which did not itemize the portion of that price attributable to state sales tax. Auditors identified one invoice on which the contractor inadvertently itemized the amount of state sales tax included in the final price. All other invoices related to the equipment did not specify the state sales tax. If the invoices do not clarify the portion of the final price that is attributable to state sales tax, it

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<sup>8</sup> All state agencies are exempt from paying state sales tax per Texas Tax Code, Section 151.309 (4).

could be more difficult for the Commission to obtain a refund from the Comptroller's Office for the state sales tax it paid.

**The Commission did not ask for a refund of state sales tax it paid.** After paying the state sales tax for the advertising services discussed above, the Commission did not consult with the Comptroller's Office about whether it could obtain a refund of the state sales tax paid. The Comptroller's Office has a process that state agencies and other exempt organizations can use to recoup state sales tax paid.

**The Commission should review user access to its accounting system.** Auditors reviewed user access to the Commission's accounting system and determined that (1) most users had the appropriate level of access based on their job responsibilities and (2) there was adequate segregation of duties for the ordering, recording, and processing of contractor payments. Auditors identified one user who had an inappropriate level of access based on that user's current job responsibilities. Although auditors confirmed that the user did not edit transactions in the Commission's accounting system, there is a potential risk of inappropriate use or modification of the Commission's financial information. According to Commission management, its annual and periodic access reviews did not identify this issue.

## **Recommendations**

The Commission should:

- Consult with the Comptroller's Office to determine when, if ever, it is required to pay state sales tax for advertising services.
- Request a refund from the Comptroller's Office for all state sales tax it has paid for advertising services.
- Ensure that invoices include enough detail to determine the amount of state sales tax paid, if applicable.
- Evaluate its process for reviewing user access to its accounting system to ensure that it identifies all users who have inappropriate levels of access.

## **Management's Response**

*The agency concurs with these recommendations.*

- *The agency has initiated an inquiry to the Comptroller's Office to determine circumstances when sales tax is required to be paid by a state agency for advertising services.*

*Responsible Management: Controller*

*Target Date: Completed – May 7, 2014*

- *The agency will take all appropriate steps related to the prior payment of sales taxes and any needed refund based on guidance received from the Comptroller's Office.*

*Responsible Management: Controller*

*Target Date: August 31, 2014*

- *The agency will ensure that all invoicing from the advertising contractor provides necessary detail with regard to the payment of sales tax.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: June 30, 2014*

- *The agency has evaluated its process for reviewing user access to the accounting system and, in doing so, has removed access for the user identified by the SAO as having an inappropriate level of access.*

*Responsible Management: Controller*

*Target Date: Completed – April 14, 2014*

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### **Objectives**

The objectives of this audit were:

- To determine whether the Texas Lottery Commission (Commission) planned, procured, and established the selected contract for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- To determine whether the Commission managed and monitored the selected contract for goods and services to help ensure that the contractor performed according to the terms of the contract and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

### **Scope**

The scope of the audit covered the Commission's advertising services contract with LatinWorks Marketing. Auditors tested transactions from the inception of the current contract in May 2012 through December 31, 2013. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process for the advertising services contract audited.

### **Methodology**

The audit methodology consisted of collecting and reviewing planning, procurement, and contract formation documentation, including the advertising services contract; conducting interviews with Commission staff; reviewing statutes, rules, Comptroller's Office requirements, and Commission policies and procedures; and performing selected tests and other procedures. The selection methodology for the contracts was based on contract dollar amount, type of contract, and recent audit coverage.

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and the Commission's MIP accounting system and performed analysis to determine completeness of the data. Auditors determined that data was sufficiently reliable for purposes of this audit. Additionally, auditors reviewed user access to and segregation of duties for the Commission's

accounting system. Auditors did not perform any additional information technology work at the Commission.

### Sampling Methodology

To test the Commission's payment of contractor invoices, auditors selected nonstatistical samples primarily through random selection designed to be representative of the population. In some cases, auditors used professional judgment to select additional items for testing. Those sample items generally are not representative of the population. The testing results do not identify which items were randomly selected or judgmentally selected. Therefore, it would not be appropriate to extrapolate those results to the population.

To test contract deliverables, auditors used professional judgment to select a sample of deliverables for testing. The sampled deliverables were not representative of the population and, therefore, it would not be appropriate to extrapolate those test results to the population.

Information collected and reviewed included the following:

- Contract between the Commission and LatinWorks Marketing.
- Commission policies and procedures.
- Commission personnel training and certification records and non-disclosure statements.
- Commission planning and procurement files, approvals, invoices, and other supporting documentation.
- Legislative Budget Board contract database.
- Commission contract expenditure data from the Commission's internal accounting system and USAS.
- Commission sanction folder, contract deliverable reports, and other support documentation.
- Commission internal accounting system user access list and roles.

Procedures and tests conducted included the following:

- Interviewed employees at the Commission on contract management compliance.
- Reviewed the Commission's contracting policies and procedures to determine whether they aligned with the *State of Texas Contract Management Guide*.

- Tested whether Commission purchasing staff and contract managers met the training and certification requirements outlined in the *State of Texas Procurement Manual*.
- Reviewed planning documentation to determine (1) whether the Commission identified risks, constraints, and objectives; (2) the amount of oversight performed by the Commission; (3) whether a competitive bid process was used; and (4) the level of research performed for the procurement.
- Reviewed the LatinWorks Marketing contract to determine whether it contained approvals, payment methodology, essential and recommended terms in the *State of Texas Contract Management Guide*, and other requirements.
- Verified that the contract was properly reported in compliance with state statute.
- Tested contract expenditures for compliance with contract terms, the *State of Texas Contract Management Guide*, and Commission policies and procedures.
- Reviewed and/or tested the Commission's monitoring activities for compliance with contract terms, including contract deliverables, sanction process, and bond and insurance requirements.
- Tested segregation of duty controls related to purchasing in the Commission's internal accounting system.

Criteria used included the following:

- Texas Government Code, Chapters 322, 2251, 2261, and 2262.
- Texas Tax Code, Section 151.309.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 16, Texas Administrative Code, Chapter 401.
- State of Texas Contract Management Guide, version 1.9.
- *State of Texas Procurement Manual*, version released in 2012; Section 1.1 (Training and Certification).
- The Commission's contracting policies and procedures.

## **Project Information**

Audit fieldwork was conducted from January 2014 through May 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

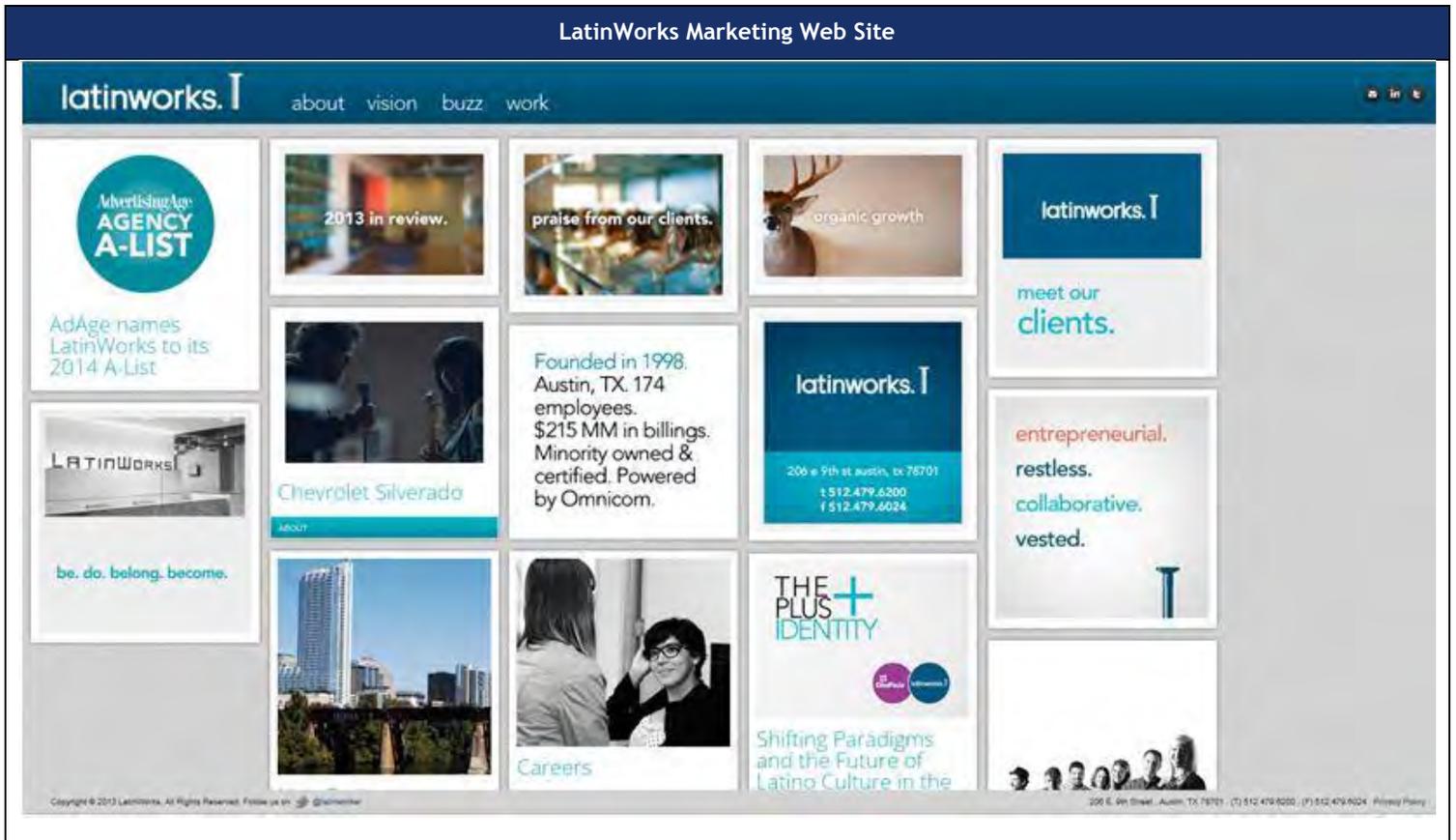
The following members of the State Auditor's staff performed the audit:

- Kelley Ngaide, CIA, CFE (Project Manager)
- Scott Boston, MPAff (Assistant Project Manager)
- Ryan Marshall Belcik
- Eric Ladejo, MPA
- Sarah Manglona
- Nicole McClusky-Erskine
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CIA, CGAP (Audit Manager)

## Contractor Information

The Texas Lottery Commission (Commission) contracted with LatinWorks Marketing for advertising of lottery products. LatinWorks Marketing is headquartered in Austin, Texas. Figure 1 shows a screenshot of the LatinWorks Marketing Web site.

Figure 1



Source: LatinWorks Marketing Web site at <http://www.latinworks.com/>.

## **Related State Auditor's Office Work**

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Related State Auditor's Office Work		
Number	Product Name	Release Date
06-062	An Audit Report on Procurement at the Texas Lottery Commission	August 2006
99-050	A Report on Procurement Practices at the Texas Lottery Commission	August 1999

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

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Ms. Jodie Baggett

Ms. Katie Dickie Stavinoha

Mr. John W. Townes III

Ms. Mary Ann Williamson

Mr. Gary Grief, Executive Director



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