TEXAS DEPARTMENT OF LICENSING AND REGULATION

Internal Audit Services

AN INTERNAL AUDIT OF

Retailer Compliance and Monitoring

Report No. 26-005

June 3, 2026

FINAL

This report provides management with information about the condition of risks and internal controls as 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.

<table>
<tr><th colspan="3">Internal Audit Report Summary</th></tr>
<tr><td>Audit Report Number and Name:</td><td>26-005 Retailer Compliance and Monitoring</td><td rowspan="6">Why This Review Was Conducted:

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery performed this internal audit as part of the approved FY 2026 Annual Internal Audit Plan.</td></tr>
<tr><td>Audit Report Date:</td><td>May 28, 2026</td></tr>
<tr><td>Internal Control Assessment Rating</td><td>Generally Effective.</td></tr>
<tr><td>Business Objective:</td><td>To protect the integrity of the Texas Lottery and maintain public trust by monitoring and enforcing retailer compliance with applicable laws and rules to ensure lottery sales are conducted fairly, securely, and in accordance with statutory authority and to maintain compliance with Texas legislation related to retailer compliance and monitoring.</td></tr>
<tr><td>Scope:</td><td>The audit scope period was September 1, 2024 – March 1, 2026.</td></tr>
<tr><td>Conclusion:</td><td>Overall, we found the design of the Agency’s management of monitoring and enforcement controls to be generally effective. Compliance Activity Monitoring Process (CAMP) information system processes are shared effectively across multiple divisions to ensure complaints are tracked, investigated, and resolved in accordance with established procedures. Testing performed over CAMP case processing activities indicated that key controls related to complaint intake, case routing, investigation, and disposition were operating effectively and supported by documented procedures.

We had no findings and therefore had no recommendations. However, opportunities to improve existing controls and processes were identified. Specifically:
• Supporting documentation for managerial case review was not retained because it was no longer available.
There were limitations in CAMP system functionality.
• Certain system functionalities, such as automated notifications, were not aligned with documented procedures.
• Complaint data is not readily extractable for analysis,
• Data fields (e.g., Case Type and Subtype) are not utilized,
• Instances of complaints opened in error were identified.

Addressing these areas will strengthen the overall control environment by enhancing auditability, ensuring consistency between procedures and operations, and further supporting the Agency’s ability to effectively monitor and enforce retailer compliance in accordance with applicable laws and regulations.</td></tr>
</table>

Total Number of Findings by Risk:	**High**	**Medium**	**Low**	**Total**
	0	0	0	0
Opportunity for Improvement Recommendations by Root Cause:	**Governance**	**People / Staffing**	**Processes**	**Technology**
	0	0	1	4

Business Objective / Focus Area	Business Risk Rating	Control Effectiveness	Opportunity for Improvement of Existing Internal Controls and Processes	Root Cause: Governance	Root Cause: People / Staffing	Root Cause: Processes	Root Cause: Technology
Business Objective 1: To protect the integrity of the Texas Lottery and maintain public trust by monitoring and enforcing retailer compliance with applicable laws and rules to ensure lottery sales are conducted fairly, securely, and in accordance with statutory authority.	Residual Risk: **Medium** Inherent Risk: High	**Generally Effective.** (See Business Objective #1)	1. Complaint data within the CAMP system is not readily extractable for reporting and analysis purposes. Management should enable users to generate exportable datasets directly from the system and evaluating reporting functionality to ensure it supports operational and analytical needs. 2. Case Type and Subtype fields in CAMP system are not being fully utilized when logging or processing complaints. Management should provide appropriate users access to “case type” and “case subtype” fields, require completion, and define standardized categories and subcategories. 3. There were three (3) opened in error cases identified. Management should strengthen upfront validation to help reduce unnecessary case creation and improve the efficiency and accuracy of complaint tracking. 4. Procedures state CAMP system will send an email titled, 'Enforcement Case				**X**

Business Objective / Focus Area	Business Risk Rating	Control Effectiveness	Opportunity for Improvement of Existing Internal Controls and Processes	Root Cause: Governance	Root Cause: People / Staffing	Root Cause: Processes	Root Cause: Technology
			Closed By Other' to the Enforcement Division advising that Operations has closed the case. However, this is not consistently occurring. Management should update the CAMP system to incorporate notification, or update the procedures to reflect current practice.				
Business Objective 2: To maintain compliance with Texas legislation related to retailer compliance and monitoring.	Residual Risk: **Medium** Inherent Risk: Medium	Generally Effective. (See Business Objective #2)	1. Supporting documentation (email support for reviews) was not available due to emails from a prior manager no longer being accessible. Management should enhance documentation retention by maintaining evidence of required reviews in a centralized and accessible location to ensure auditability despite personnel changes.			**X**	

Introduction

We performed this audit as part of the approved FY 2026 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 that the evidence obtained accomplishes that requirement.

Functional Area Responsibilities and Activity Summary

Background

The TDLR - Lottery Operations is responsible for overseeing retailer adherence to statutory requirements, administrative rules, and contractual obligations governing the sale and validation of lottery products. This function supports the integrity of lottery operations by ensuring that licensed retailers comply with eligibility criteria, sales procedures, advertising standards, prize payment requirements, and financial settlement obligations. Key activities include retailer monitoring, complaint intake and resolution, enforcement actions, and coordination with licensing and legal functions for disciplinary measures when noncompliance is identified.

Compliance Activity and Monitoring Process (CAMP) System

Central to compliance monitoring is the Complaint and Activity Management Process (CAMP) system, which serves as the primary repository for documenting, tracking, and managing retailer-related complaints, incidents, and enforcement actions.

CAMP is used to capture complaints and incident reports from a variety of sources, including the public, retailers, and staff. Each intake is categorized by type (e.g., type of violation, prize dispute, eligibility concern) and prioritized based on risk and potential impact to lottery operations.

Once recorded, cases are routed within CAMP for assignment to compliance staff or enforcement staff. The system facilitates end-to-end case management by enabling users to document investigative procedures, maintain supporting evidence, track status, and record final determinations. CAMP also supports the documentation of enforcement actions, such as warning letters, fines, suspensions, or license revocations, ensuring consistency and completeness in regulatory actions.

In addition to case management, CAMP functions as a repository for historical compliance data and provides reporting capabilities that support oversight and decision-making. The system allows management to monitor caseloads, identify recurring incidents with retailers, and assess complaint resolution processes. This data can inform risk-based monitoring strategies and facilitate coordination with other functions, such as licensing, legal, and audit.

Overall, CAMP plays a key role in promoting consistency, accountability, and transparency by providing a structured framework for managing retailer compliance activities and maintaining a comprehensive audit trail of complaints, investigations, and enforcement actions.

Finding vs. Opportunity for Improvement

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 can be enhanced. A control weakness is a failure in the implementation or performance of internal controls. A control gap occurs when controls do not exist, do not effectively mitigate a risk, or are not operating effectively.

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 (what could go wrong). 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.

Detailed Business Objectives, Focus Areas, and Internal Controls Discussion

This section of the report provides discussion on the audit's focus areas, grouped by business objective, and provides a summary of our testing, findings, and recommendations. Each business objective includes the definition, inherent risk to the organization if controls were not in place or were working, and the residual risk to the organization's ability to achieve the respective business objective based upon our assessment of the effectiveness of controls and processes in place.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) was formed in 1985 to improve financial reporting quality through ethics, internal controls, and risk-management. The frameworks developed provide organizations with a tool to detect fraud and manage risks. COSO is known for its Internal Control – Integrated Framework and Enterprise Risk Management Framework. COSO's Internal Control – Integrated Framework is closely aligned with the Institute of Internal Auditor's (IIA) Professional Practices Framework (IPPF) and the IIA promotes COSO as the premier framework for internal control. COSO's framework is organized around five integrated components of internal control:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring activities

McConnell Jones incorporates the COSO framework into all internal audits we execute.

Business Objective 1: Operational Monitoring and Enforcing Retailer Compliance

Operational monitoring and enforcement of retailer compliance is intended to ensure that Texas Lottery retailers consistently adhere to applicable laws, rules, and contractual requirements governing lottery sales and related activities. This objective focuses on the effectiveness and consistency of day-to-day compliance oversight processes, including how potential violations are identified, investigated, documented, and resolved in a timely manner. It also encompasses the ability of the respective operational functions to respond to risks, prioritize enforcement efforts, and apply corrective actions appropriately to maintain the integrity of lottery operations.

The CAMP system is central to achieving this objective, as it serves as the primary tool used to operationalize compliance monitoring and enforcement activities. CAMP supports the intake, classification, and tracking of complaints and incidents, enabling staff to manage investigative workflows from initiation through resolution. From an operational standpoint, the system facilitates case assignment, documentation of investigative procedures, and recording of enforcement outcomes. As such, the effectiveness of operational monitoring is directly dependent on the reliability, usability, and functionality of CAMP, including its ability to support timely case handling, consistent documentation, and meaningful reporting. Any limitations in the system's data capture, workflow management, or reporting capabilities may impact the agency's ability to effectively monitor retailer behavior and enforce compliance requirements.

Audit Focus Areas of This Discussion:

We focused on the operational activities of the CAMP system as they relate to Lottery Operation functions.

Business Risk Ranking

Risk	Low	Medium	High
Inherent			X
Residual		X	

Control Rating

Generally Effective	Some Improvement Needed	Major Improvement Needed	Unsatisfactory
X			

Root Cause

Governance	People / Staffing	Processes	Technology
			X

Audit Activities Performed and Management Controls	
Criteria Used	➲ Texas Lottery Operations Division Procedure – Complaint CAMP Case Processing
Control Tests Applied	➲ Inquiry of Lottery Operations management. ➲ Inspection of policies and procedures. ➲ Reviewed documents provided to ensure they reflected documented policy and procedures.
Management Controls in Place	➲ CAMP complaint processes are documented in policy and procedures. ➲ Management maintains documented organizational charts that establish reporting lines and management accountability for operational and administrative functions. ➲ Effective communications between divisions ensure complaints are processed according to policies and procedures.

Findings:

No findings were noted.

Opportunity for Improvement # 1

Complaint data within the CAMP system is not readily extractable for reporting and analysis purposes. Management should update the CAMP system to enable users to generate exportable datasets directly from the system and evaluate reporting functionality to ensure it supports operational and analytical needs.

Opportunity for Improvement # 2

In the CAMP system, "Case Type" and "Case Subtype" fields are not being utilized when logging or processing complaints. Management should enable and require the application to provide appropriate users access to "Case Type" and "Case Subtype" fields and define standardized categories and subcategories.

Opportunity for Improvement # 3

There were 3 opened in error cases identified. Management should strengthen upfront data entry validation to help reduce unnecessary case creation and improve the efficiency and accuracy of complaint tracking.

Opportunity for Improvement # 4

Procedures state the CAMP system will send an email titled, 'Enforcement Case Closed By Other' to the Enforcement Division advising that Operations has closed the case. However, this is not occurring. Management should update the CAMP system to incorporate notification, or update the procedures to reflect current practice.

Management Response:

We had no findings and therefore management response is not required. Management response is not required for improvement opportunity recommendations.

Business Objective 2: Maintaining Compliance with Texas Legislation

Maintaining compliance with Texas legislation ensures that TDLR - Lottery Operations, including retailer oversight, adhere to applicable statutes, administrative rules, and regulatory requirements through effective controls, consistent application of policies, and proper documentation. The CAMP system supports this objective by serving as the system of record for compliance-related activities, providing a structured framework to capture complaint data, document investigative procedures, and record enforcement actions while maintaining a reliable audit trail. As such, the Commission's ability to demonstrate compliance is dependent on CAMP's effectiveness in ensuring consistent data entry, accurate recordkeeping, and reliable reporting, as deficiencies in system controls or data integrity may increase the risk of noncompliance.

Audit Focus Areas of This Discussion:

We focused on the established compliance process as they relate to Retailer Compliance and Monitoring functions.

Business Risk Ranking

Risk	Low	Medium	High
Inherent			X
Residual		X	

Control Rating

Generally Effective	Some Improvement Needed	Major Improvement Needed	Unsatisfactory
	X		

Root Cause

Governance	People / Staffing	Processes	Technology
		X	

Audit Activities Performed and Management Controls	
Criteria Used	➲ Texas Lottery Operations Division Procedure – Complaint CAMP Case Processing ➲ Penalty Chart for Retailers

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Audit Activities Performed and Management Controls	
	➲ COSO Internal Control–Integrated Framework Principle 12 – The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
Control Tests Applied	➲ Inquired of Lottery Operations management. ➲ Inspection of policies and procedures. ➲ Inspected supporting documentation for the processing of 6 closed CAMP complaints that occurred in FY2026.
Management Controls in Place	➲ CAMP processes are documented in policy and procedures. ➲ Business functions and internal controls for the CAMP process align with documented policies and procedures ➲ Monitoring responsibility to enforce accountability and ensure consistent execution of responsibilities. ➲ Effective communications between divisions ensure complaints are processed according to policies and procedures.

Findings:

No findings were noted. There was one opportunity for improvement documented for this area.

Opportunity for Improvement # 1

Supporting documentation (email support for reviews) was not available due to emails from a prior manager no longer being accessible. While the system shows the cases were handled by the Retailer Services Manager, the absence of retained evidence limits verification. Management should improve documentation retention by storing evidence of required reviews in a centralized, accessible location to preserve auditability during personnel changes.

Management Response:

We had no findings and therefore management response is not required. Management response is not required for improvement opportunity recommendations.