



**Texas Lottery Commission
Internal Audit Services**

**FY 2021 Annual Internal Audit
Report**

MJ

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

August 12, 2021

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) 2021 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 engaged McConnell & Jones LLP (MJ) on September 1, 2017 to provide internal audit services to the TLC in accordance with The Texas Internal Auditing Act, pursuant to the Request for Proposals (RFP) issued January 30, 2017. MJ submits this fiscal year 2021 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 2021 Annual Internal Audit Report is due November 1, 2021.

Please contact Darlene Brown at 713.968.1617 or Commissioner Robert G. Rivera at 817.240.6371 if you should have any questions about this audit report.

Sincerely,

Darlene Brown, CIA,CFE
Partner

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Suite 320
Austin, TX 78759
Phone: 713.968.1600



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 Lottery Commission (TLC) for posting to their website.

II. FISCAL YEAR 2021 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2021 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 2021 Internal Audit Plan as of July 31, 2021. Several audits were postponed to FY 2022 due to the pandemic and a special project.

FY 2021 Annual Internal Audit Plan Status as of July 31, 2021

Task #	Description	Report Number	Report Date	Report Title	Audit Status
1	Payroll Processes	21-003	January 12, 2021	CAPPS Payroll Processes	Completed
2	Claims Center Review	Postponed to FY 2022			
3	Workforce Management	This was not an audit. Internal Audit monitored how the agency was managing the workforce while working remote. The agency put strong management practices in place to ensure staff understood the expectations, provided regular communications, and monitored staff productivity.			
4	Agency Travel and Expense	Cancelled – Agency Travel was Limited in FY 2021			
5	Claims and Prize Payment Management	Postponed to FY 2022			
6	Ticket and Game Management	Postponed to FY 2022			
7	Drawings Studio Operations	Postponed to FY 2022			
8	Charitable Bingo Operations Division Ledger Account Reconciliations*	In-Progress Anticipate completion in FY 2022			



Task #	Description	Report Number	Report Date	Report Title	Audit Status
9	Information System User Access	On-Going. However, no exceptions have been noted during quarterly testing.			
10	Follow-Up on Prior Audit Findings	N/A	N/A	N/A	On-Going
11	Monitor Ethics Hotline	N/A	N/A	N/A	On-Going
12	External Audit / Review Assistance	N/A	N/A	N/A	Assistance Provided as Requested
13	Update Risk Assessment & Annual Audit Plan	N/A	N/A	N/A	Completed
14	Annual Internal Audit Report	N/A	N/A	N/A	Completed
15	Audit Communications, Committee Meetings, Project Management	N/A	N/A	N/A	On-Going

* Added to the approved audit plan.

N/A = Audit reports are not issued for these audit activities.

Deviation from Fiscal Year 2021 Internal Audit Plan

Internal Audit modified the internal audit plan by delaying planned audit timing due to the COVID-19 pandemic's impact. Four audits were postponed to FY 2022 and will either be completed as originally planned or incorporated within an audit of the same function.

We added reconciling the Charitable Bingo Operations Division's license ledger accounts to verify that adjustments were supported and that balances are accurate.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

The consulting type services internal audit provided during FY 2021 consisted of performing reconciliations of the Charitable Bingo Operations Division licensing ledger accounts. We noted in prior audits that some of the account's transactions were inaccurately posted. We are in the process of reconciling every account and will issue a summary report in FY 2022.

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, in our four most recent peer reviews, 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 MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter below.



Report on the Firm's System of Quality Control

January 31, 2018

To the Partners of
McConnell & Jones, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans and an audit of a non-carrying broker-dealer.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

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Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, 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*.

Turner, Stone & Company, LLP
Turner, Stone & Company, LLP



V. FISCAL YEAR 2022 INTERNAL AUDIT PLAN

MJ developed the Fiscal Year 2022 Annual Internal Audit Plan based on results of the annual risk assessment. The risk assessment included reviewing the impact of COVID-19 on the agency's operations and conducting discussions with management. Our assessment evaluated risk exposures relating to the TLC's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; security of information systems; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

MJ will conduct nine scheduled audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the FY 2023 Annual Internal Audit Plan and prepare the FY 2022 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,174 hours**. The planned audits, timing and estimated hours are summarized in the table below.

The planned audits, timing and estimated hours are summarized in the table below. We are not performing an audit specifically focused on contract management processes during FY 2022. However, some aspects of contract management will be included in the ticket and game and game management audit. All high-risk areas are included in this year's audit plan except for cyber security. The agency undergo their bi-annual comprehensive security study by an external consulting firm during FY 2022. Each of our planned audits will incorporate information technology and data security controls.

FY 2022 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Retailer Survey Process <ul style="list-style-type: none"> Review contemplated changes to the retailer survey processes Performance measures and methodology 	High	As Process and Procedures Are Developed	62
2	Confidential Data <ul style="list-style-type: none"> Identification Classification Handling and Storage 	High	September – November 2021	192
3	Ticket and Game Management <ul style="list-style-type: none"> Planning Supply chain Investigation Ticket Handling and Controls 	High	December 2021 – January 2022	324
4	Promotional Game Tickets <ul style="list-style-type: none"> Distribution Process Considerations Internal Controls 	High	As Process and Procedures Are Developed	128
5	Agency Performance Measures <ul style="list-style-type: none"> Information Capture Process Validation 	Medium	December 2021	174



Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
	<ul style="list-style-type: none"> Reporting 			
6	Jackpot Estimation System <ul style="list-style-type: none"> Review Changes 	High	January 2022	164
7	Claims and Prize Payment Management <ul style="list-style-type: none"> Claims Center and Mail Operations Debt Setoff Collection and Payment Processes Contemplated Mobile Payment Process and Controls 	High	February – April 2022	388
8	Drawings Studio Operations <ul style="list-style-type: none"> Review operation plan for facility move Review equipment maintenance Review ball maintenance Contingency planning 	High	May 2022	288
9	Gaming Changes (Aurora) <ul style="list-style-type: none"> Review contract amendment Review Gaming Events Identify and Review Activities that Affect Financial Statements Claims and Digital Payments 	High	July – August 2022	164
10	Information System User Access	High	On-Going	44
11	Follow-Up on Prior CBOD Audit Findings	High	On-Going	192
12	Monitor Ethics Hotline	Compliance	On-Going	2
13	External Audit / Review Assistance	N/A	On-Going	2
14	Update Risk Assessment & Annual Audit Plan	Compliance	July 2022	28
15	Annual Internal Audit Report	Compliance	August 2022	6
16	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	16
	Total Hours			2,174
	Total Fees			\$299,029

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2021

The following represent external audit services that were procured by the Texas Lottery Commission or were ongoing in fiscal year 2021.

Audit / Review	Auditor
Drawings Studio Independent Auditor Certifications	Weaver and Tidwell, LLP



<i>Audit / Review</i>	<i>Auditor</i>
FY20 Financial Audit Services	Weaver and Tidwell, LLP

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 Commission 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 Commission 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.

VIII. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TLC's executive management and present these changes to the TLC Commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the Audit Committee will be submitted to the State Auditor's Office (SAO).