

Texas Lottery Commission
Charitable Bingo Operations Division



FY2019 Bingo Annual Audit Plan & Risk Assessment
Conductor Compliance Reviews
Game Inspections

Commissioner J. Winston Krause, Chairman
Commissioner Carmen Arrieta-Candelaria
Commissioner Doug Lowe
Commissioner Robert Rivera

Michael P. Farrell, Director
Joy Bishop, Lead Audit Coordinator

September 1, 2018



INTEROFFICE MEMO

Gary Grief, Executive Director Michael P. Farrell, Charitable Bingo Operations Director

To: Michael P. Farrell
Director
Charitable Bingo Operations Division

From: Joy Bishop
Lead Audit Coordinator
Charitable Bingo Operations Division

Date: September 1, 2018

Re: Fiscal Year 2019 Annual Audit Plan and Risk Assessments
Review of Charter

FISCAL YEAR 2019 BINGO ANNUAL AUDIT PLAN AND RISK ASSESSMENT HIGHLIGHTS

FY2019 Conductor Compliance Review (CCR) Risk Assessment

The CCR Risk Assessment used to identify the FY2019 audits of licensed organizations and accounting units has been determined and includes consideration of TEX. OCC. CODE § 2001.560(c-1)(2)(C) and 16 TEX. ADMIN. CODE § 402.703 in its methodology.

The CCR Risk Assessment is prepared using the Bingo Operations Services System (BOSS). Results are exported into an excel spreadsheet that is used to assist in the assigning and monitoring of the audit projects.

The goal of the CCR Risk Assessment is to audit the highest-risk licensees within a 4-year timeframe and result in substantial audits of organizations with material gross receipts and high-volume bingo activity.

The overall goal is to continue our focus on financial monitoring. The Audit Department budgeted 200 hours to complete audits of single organizations and 400 hours for accounting units. It is anticipated that staff will be able to reduce the hours expended on audit projects with ongoing staff training and professional development, performance reviews, scope considerations, implementation of audit focused BOSS and Compliance Activity Monitoring Process (CAMP) enhancements, and overall efficiencies in the audit process.

The following risk factors were used:

- Gross Receipts
- Expenses as a Percentage of Gross Receipts
- Net Proceeds as a Percentage of Gross Receipts
- Charitable Distributions as a Percentage of Gross Receipts

Based on results of the risk assessment and resource allocation considering 16 Full Time Equivalents (FTEs) when fully staffed, it is projected that 32 audits¹ will be completed. The completion of these audits will provide the following.

- 7.8% coverage of **ALL** 412 active, annually licensed organizations and accounting units in Texas, an increase of 1% over the FY2018 projection of 6.8%, and
- 33.3% for **ALL** active, annually licensed organizations and accounting units with audit coverage within the last five years. This is an increase of 1.8% over the FY2018 projections of 31.5%.

The projections could change due to unforeseen circumstances, changes in the industry, staff vacancies, training needs, management priorities and legislative requests.

Further, adjustments may be deemed necessary by management considering higher priorities within the division such as auditor assistance in special projects, complex audits, or complaint investigations that result in increased use of resources due to substantial expansion of scope and audit procedures.

¹ Audits comprise both organization and unit audits. The number will increase depending on the number of organizations contained in a unit. Currently, 6 individual conductors and 26 units are planned for an audit in FY2019. If each unit contains 4 organizations that would increase the number of audits by 96 for a total of 104 projected audits for FY2019.

FY2019 Game Inspection (GI) Risk Assessment

The GI Risk Assessment used to identify the FY2019 game inspections of licensed organization has been determined and includes consideration of TEX. OCC. CODE § 2001.560(c-1)(2)(C) and 16 TEX. ADMIN. CODE § 402.705 in its methodology.

The GI Risk Assessment is prepared using BOSS, and the results are exported into an excel spreadsheet that is used to assist in the assigning and monitoring of the inspections.

The goal of the GI Risk Assessment is to inspect high-risk locations to ensure bingo is conducted fairly and to promote voluntary compliance with the Commission's regulatory requirements.

The plan estimates 16 hours per GI, including travel, to quantify the number of game inspections projected. However, hours may be adjusted as additional game inspection procedures are considered to ensure bingo is fairly conducted and efficiencies that may result from BOSS and CAMP enhancements.

The following are the risk factors that were used:

- Gross Receipts Reported for Playing Location
- Time Elapsed Since Last Game Inspection at Location
- Compliance History

Based on results of the risk assessment and resource allocation considering 16 Full Time Equivalents (FTEs) when fully staffed, it is projected that 54 game inspections will be completed. Completing this number of game inspections will provide for 16.7% coverage of the 324 locations where bingo is conducted throughout the state and 100% coverage of locations where bingo is conducted in within the preceding 5 years.

The projections could change due to unforeseen circumstances, changes in the industry, staff vacancies, training needs, management priorities and legislative requests.

FY2019 Performance Measures

Our goal is to achieve the targets set in the relevant performance measures.

The results of the projections for FY2019 will be used to explain variances during performance measure reporting and gain additional insight to propose realistic targets for the future.

Strategy Measure #	Measure Name	FY 2019 Performance Measure Target
B.1.a	Percentage of Licensees with No Recent Violation	91.00%
B.1.b	Percentage of Bingo Audits Referred for Disciplinary Action	65.00%
B.1.c	Percentage of Complaints Referred for Disciplinary Action	8.00%
B.1.d	Percentage of Documented Complaints Completed Within Six Months	85.00%
B.1.g	Percentage of Organizations Receiving an Audit	21.39%
B.1.h	Percentage of Organizations Receiving an Inspection	31.35%
B.1.3.a	Number of Inspections Conducted	469 ²
B.1.3.b	Number of Bingo Audits and Reviews Completed	100
B.1.3.c	Number of Bingo Complaints Completed	180
B.1.3.d	Dollar Amount of Adjustments to Charitable Distributions by Audit and Inspections	\$15,000
B.1.3.a	Average Time for Bingo Complaint Completion (Days)	75
B.1.3.b	Average Cost per Bingo Complaint Completed	\$350
B.1.3.c	Average Time to Conduct Audit (Hours)	200
B.1.3.e	Average Cost per Bingo Audit Completed	\$5,215.80

REVIEW OF CHARTER

The Audit Charter is posted on the Charitable Bingo Operations Divisions website at:

² Number of Inspections Conducted includes Bingo Complaints Completed and Electronic Card Minding Site System Connectivity Inspections

https://www.txbingo.org/export/sites/bingo/About_Us/charitable_bingo_audit_charter.html

I have reviewed the Audit Charter and recommend a change in reporting. The Audit department would directly report to the Operations Administrator who reports to the division director. I have no other recommendations.

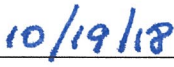
Please let me know if you concur with the existing Charter and the FY 2019 Audit Plan by signature approval below. Resource allocation and Plan of Activities follow on the next page.

If you have any questions, concerns or additional recommendations, please let me know.

Thank you for your time and consideration.



Approved



Date

FY2019
CBOD Audit
Plan of Activities³

	Budgeted Hours	Percent of Direct Time
AUDITS	16,200	76.0%
Wrap up and completion of FY18 Audit projects in progress		
FY2018 Risk Assessment Conductor Compliance Reviews identified but not started		
FY2019 Risk Assessment Conductor Compliance Reviews		
FY2019 Limited Scope and Follow-up Reviews		
FY2019 Desk Reviews		
INSPECTIONS	939	4.4%
Destructions		
Game Inspections		
Site System Inspections		
EQUIPMENT COMPLIANCE TESTING & APPROVAL	375	1.8%
Electronic Card-Minding Systems		
Pull-Tabs		
SPECIAL PROJECTS	3,794	17.8%
Training		
Division Projects assigned by Director		
Audit Department Special Projects		
Total Direct Hours Budgeted	21,308	

³ Events may arise that could impact planned activity hours due to unforeseen circumstances, such as higher priority activities and overall constraints of demands to the program based on 16 FTEs.