





**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

# **INTERNAL AUDIT SERVICES**



## **STATUS REPORT TO THE COMMISSIONERS**

**OCTOBER 10, 2019**

**INFORMATION ITEM – NO ACTION REQUIRED**



## Internal Audit Activities

Internal Audit Services' activities during this period (August 11, 2019 through September 1, 2019) include:

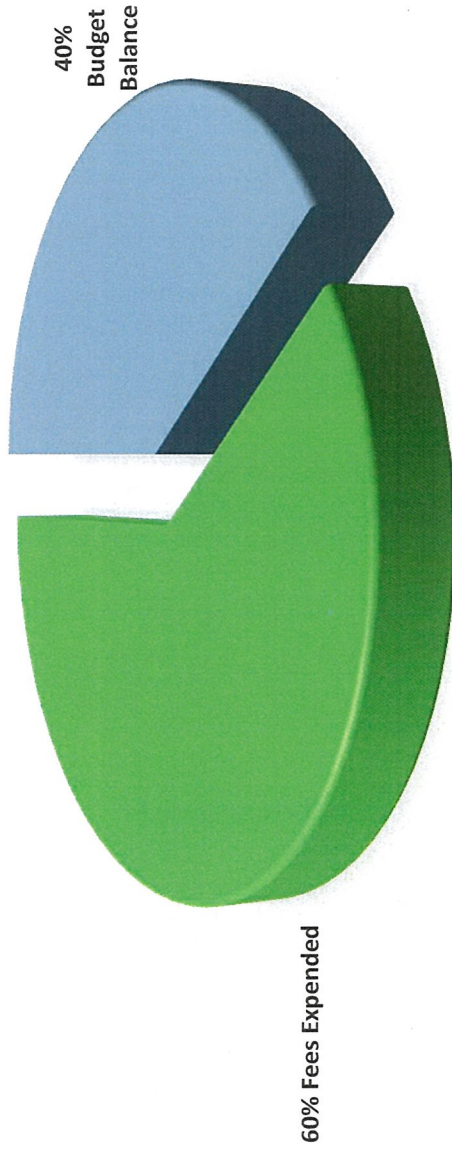
- Completed the following audits:
  - Retailer Incentive Program
  - Customer Service
  - Game Changes
  
- Prepared FY 2019 Annual Internal Audit Report





# FY 2019 Internal Audit Budget as of August 31, 2019

INTERNAL AUDIT BUDGET FEES FY2019 YTD  
8/31/2019



## FY 2019 Annual Internal Audit Plan Completed \$119,700 Under Budget

*MJ is cognizant of the importance of managing the approved hours and budget. As such we are diligent about staying within the estimated hours per audit and activity. There may be instances where audits/activities are over or under estimated hours and we will adjust the audit plan budget accordingly to stay within the total approved budget.*



Legend:  Not Started  In-Progress  
 Completed  Continuous

## Fiscal Year 2019 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	Copy Center Controls and Monitoring Process						
2	Centralize Audit Report Findings and Monitoring			N/A	N/A	N/A	N/A
3	HB2578 Implementation						
4	Game Changes						
5	Drawings Studio						
6	Cyber Security Program						
7	Retailer Incentive Program						
8	Lottery Operations Customer Service						
9	Follow-Up On Prior Audit Findings						
10	Bingo Follow-Up Activities						
11	Information System User Access						
12	Monitor of Fraud/Complaint Hotlines Lines						
13	External Audit / Review Assistance						
14	Update Risk Assessment & Develop 2020 Audit Plan						
15	Annual Audit Report						

MJ

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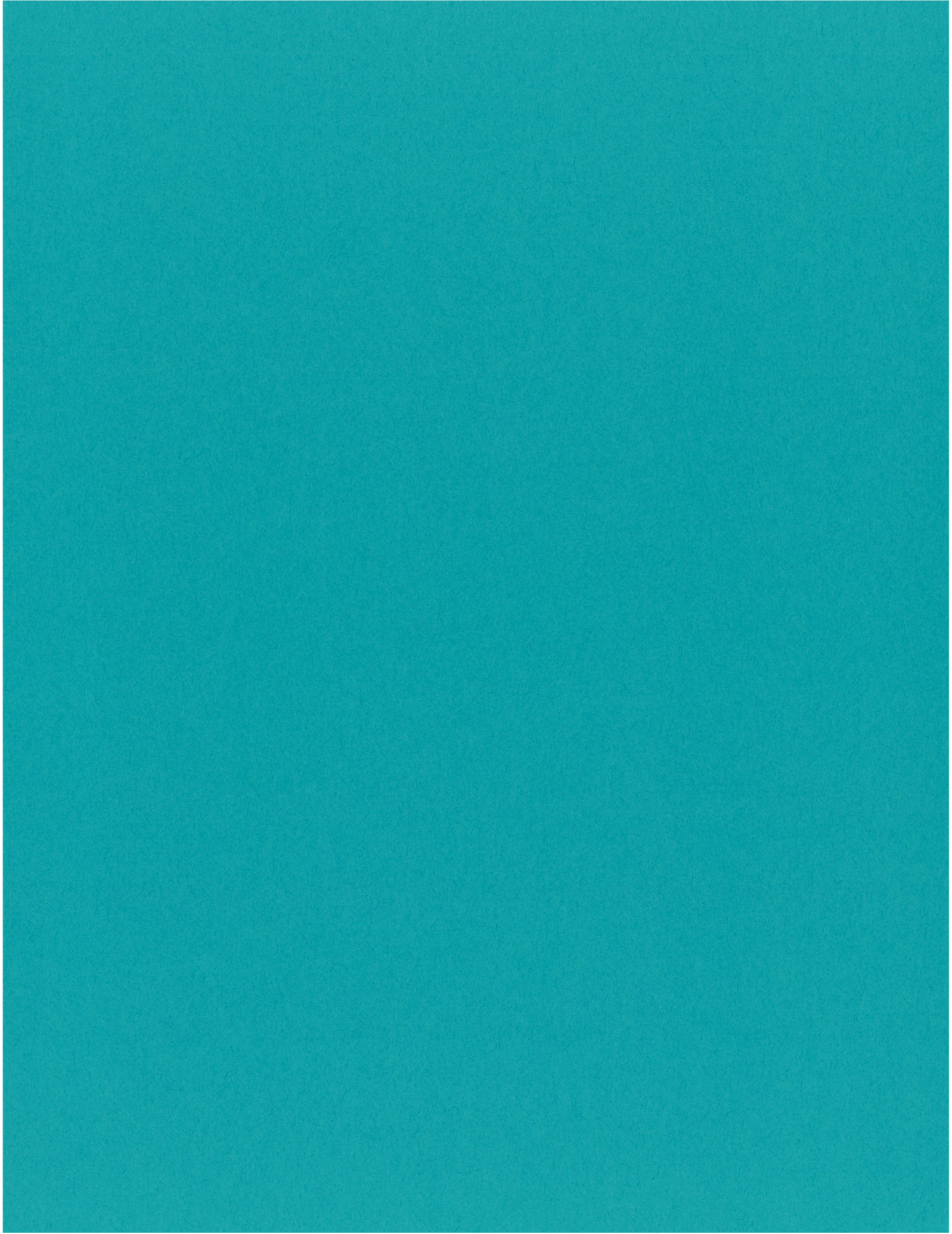




## Anticipated Activities Next Period

- Commence Charitable Bingo Operations Division Audits
- Issue Drawings Studio Audit Report
- Issue Cyber Security Audit Report
- Issue Retailer Incentive Audit Report
- Issue Game Changes Audit Report
- Issue Customer Service Audit Report









**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

# INTERNAL AUDIT SERVICES



## FY 2019 ANNUAL INTERNAL AUDIT REPORT

OCTOBER 10, 2019

ACTION ITEM





# FY 2019 Annual Internal Audit Report

- Required by the Texas Internal Auditing Act Approved by the Commission
- Issued by November 1<sup>st</sup> Each Year
- Mandated Contents
  - *Publication of internal audit reports on TLC's website*
  - *FY 2019 Annual Internal Audit Plan status*
  - *Peer review outcome*
  - *FY 2020 Annual Internal Audit Plan*
  - *External audit service procured in FY 2019*
  - *TLC's policies for reporting suspected fraud and abuse*

- External Distribution:
  - *Governor's Office of Budget Planning Policy*
  - *Legislative Budget Board*
  - *State Auditor's Office*





**Texas Lottery Commission  
Internal Audit Services**

**FY 2019 Annual Internal Audit  
Report**



**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS





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McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

October 10, 2019

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) 2019 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 2019 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 2019 Annual Internal Audit Report is due November 1, 2019.

Please contact Wayne McConnell at 713.968.1600 or Commissioner J. Winston Krause at 512.477.6707 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA  
Partner

7600 Chevy Chase Drive  
Suite 307  
Austin, TX 78752  
Phone: 512.430.5358

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## 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 2019 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2018 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 2019 Internal Audit Plan as of August 31, 2019.

**FY 2019 Annual Internal Audit Plan Status as of August 31, 2019**

Task #	Description	Report Number	Report Date	Report Title	Audit Status
1	Copy Center Controls and Monitoring Process	19-001	November 8, 2018	TLC's Copy Center Controls	Completed
2	Centralize Audit Report Findings and Monitoring	No report issued as this was a project to place all agency audit findings and recommendations into a central database administered by the agency. This database was placed into production in August 2019 and all prior audit findings will be entered into the system by October 31, 2019.			
3	HB2578 Implementation	19-002	Will be issued in September 2019	Implementation of HB 2578	Completed
4	Game Changes	19-003	Will be issued in September 2019	Game Changes Audit	Completed
5	Drawings Studio Processes and Controls	19-004	Will be issued in September 2019	Drawings Studio Processes	Completed
6	Cyber Security Program	19-005	Will be issued in September 2019	Cyber Security	Completed
7	Retailer Incentive Program	19-006	Will be issued in September 2019	Retailer Incentive Program	Completed





Task #	Description	Report Number	Report Date	Report Title	Audit Status
8	Lottery Operations Customer Service	19-007	Will be issued in September 2019	Lottery Operations Customer Service	Completed
9	Bingo Follow-Up Activities	N/A	N/A	N/A	On-Going
10	Information System User Access	N/A	N/A	N/A	On-Going
11	Follow-Up on Prior Audit Findings	N/A	N/A	N/A	On-Going
12	Monitor Fraud/Complaint Hotline	N/A	N/A	N/A	On-Going
13	External Audit / Review Assistance	N/A	N/A	N/A	Assistance Provided as Requested
14	Update Risk Assessment & Annual Audit Plan	N/A	N/A	N/A	Completed
15	Annual Internal Audit Report				Completed
16	Audit Communications, Committee Meetings, Project Management				On-Going

#### Deviation from Fiscal Year 2019 Internal Audit Plan

Internal audit implemented the FY 2019 Annual Internal Audit Plan as approved with no deviations.

### III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal Audit did not provide any consulting or advisory engagements during FY 2019.

### 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.



Your Vision Our Focus



## 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](http://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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 Toll Free: 877-813-4295  
 Web site: [turnerstone.com](http://turnerstone.com)



## 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 deficiencies*, or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

*Turner, Stone & Company, LLP*

Turner, Stone & Company, LLP





## V. FISCAL YEAR 2020 INTERNAL AUDIT PLAN

MJ developed the Fiscal Year 2020 Annual Internal Audit Plan based on results of the annual risk assessment. The risk assessment included reviewing the agency's strategic plan and the Legislative Appropriations Request; reviewing prior audit reports and findings; 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; 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, monitor information system user access, prepare the fiscal year 2021 Annual Internal Audit Plan and prepare the fiscal year 2020 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,421 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

### Fiscal Year 2020 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Background Investigations	High	September 2019 - October 2019	225
2	Bingo Enforcement Order Processes	High	November 2019 - January 2020	230
3	Bingo Implementation of HB 914	High	January 2020 - February 2020	321
4	Records Retention	Medium	March 2020 - April 2020	305
5	Agency Travel and Expense	Low	April 2020 - May 2020	265
6	Claim Center and Ticket Validations Compliance with policies	High	May 2020 - June 2020	201
7	Review of TLC Monitoring and Testing of Lottery Vendor Software Changes Activities	High	June 2020 - July 2020	181
8	TLC Warehouse and Receiving	Low	June 2020 - July 2020	233
9	Ticket Return and Destruction Controls	High	July 2020	145
10	Information System User Access	High	On-Going	65
11	Follow-Up on Prior Audit Findings	Compliance	On-Going	77
12	Monitor Fraud/Complaint Hotline	Compliance	On-Going	8
13	External Audit / Review Assistance	N/A	On-Going	8
14	Update Risk Assessment & Annual Audit Plan	Compliance	July 2019	97
15	Annual Internal Audit Report	Compliance	August 2019	7
16	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	53
<b>Total Hours</b>				<b>2,421</b>
<b>Total Fees</b>				<b>\$299,819</b>

*Proposed audits will focus on internal controls and business processes*





## VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2019

The following represent external audit services that were procured by the Texas Lottery Commission or were ongoing in fiscal year 2019.

<i>Audit / Review</i>	<i>Auditor</i>
<i>Drawings Studio Independent Auditor Certifications</i>	<i>Weaver and Tidwell, LLP</i>
<i>FY18 Financial Audit Services</i>	<i>Weaver and Tidwell, LLP</i>
<i>Security Study</i>	<i>Berry Dunn</i>

## 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).

This annual internal audit report was presented to the Commissioners and approved on October 10, 2019.