



INTEROFFICE MEMO

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

To: J. Winston Krause, Chairman
Mark A. Franz, Commissioner
Robert Rivera, Commissioner
Erik C. Saenz, Commissioner

From: Michael P. Farrell

A handwritten signature in blue ink, appearing to read "M. Farrell", is written over the printed name.

Date: September 25, 2019

Re: Information from Charitable Bingo for the commission meeting

Report by the Charitable Bingo Operations Director and possible discussion and/or action on the Charitable Bingo Operations Division's activities, including licensing, accounting and audit activities, pull-tab review, and special projects.



INTEROFFICE MEMO

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

To: J. Winston Krause, Chairman, Texas Lottery Commission
Mark Franz, Commissioner, Texas Lottery Commission
Robert Rivera, Commissioner, Texas Lottery Commission
Erik Saenz, Commissioner, Texas Lottery Commission

From: Michael P. Farrell, Charitable Bingo Operations Division Director, Texas Lottery Commission

Date: September 24, 2019

Re: Charitable Bingo Operations Division Output Metrics - August 2019

Licensee Information

| <u>License Type</u> | <u>Active</u> | <u>Administrative Hold</u> |
|-----------------------|---------------|----------------------------|
| Conductor | 976 | 5 |
| Lessor | 244 | 74 |
| Distributor | 12 | 0 |
| Manufacturer | 20 | 0 |
| BingoPlayingLocations | 332 | 0 |

Licensing

| | |
|---|------|
| Number of original applications received | 1 |
| Number of renewal applications received | 70 |
| Number of worker registry applications received | 297 |
| Number of original licenses issued | 7 |
| Number of renewal licenses issued | 62 |
| Number of worker registry badges issued | 326 |
| Average Bingo License (Temporary) Processing Time (Days) | 3.26 |
| Average Bingo License (Amendments) Processing Time (Days) | 2.21 |
| Average Bingo License (Originals) Processing Time (Days) | 143 |
| Average Bingo License (Renewals) Processing Time (Days) | 14.1 |

Accounting

| | | |
|--|-----|--------------|
| Number of quarterly reports processed | 115 | |
| Total payments received | 41 | \$115,865.12 |
| Received by mail | 38 | \$112,748.93 |
| Electronic Payment through Bingo Services Portal | 3 | \$3,116.19 |

Audit Services

| | |
|---|----|
| Number of audits and game inspections completed | 20 |
| Number of audits completed | 18 |
| Number of game inspections completed | 2 |
| Number of complaints received | 15 |
| Number of complaint investigations completed | 12 |

Compliance

| | |
|---|------|
| Number of administrative actions | |
| Applications Denied | 0 |
| Settlement Agreements | 0 |
| Agreed Orders | 0 |
| Total administrative penalties received | null |
| Worker Registry Activity | |
| Applications Denied | 12 |
| Workers Removed | 0 |

Education

| | |
|---|----|
| Number of individuals receiving education | 85 |
| On-line | 85 |
| On-site | 0 |



INTEROFFICE MEMO

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

To: J. Winston Krause, Chairman, Texas Lottery Commission
Mark Franz, Commissioner, Texas Lottery Commission
Robert Rivera, Commissioner, Texas Lottery Commission
Erik Saenz, Commissioner, Texas Lottery Commission

From: Michael P. Farrell, Charitable Bingo Operations Division Director, Texas Lottery Commission

Date: September 24, 2019

Re: Charitable Bingo Operations Division Output Metrics - July 2019

Licensee Information

| <u>License Type</u> | <u>Active</u> | <u>Administrative Hold</u> |
|-----------------------|---------------|----------------------------|
| Conductor | 972 | 5 |
| Lessor | 244 | 74 |
| Distributor | 11 | 0 |
| Manufacturer | 19 | 0 |
| BingoPlayingLocations | 331 | 0 |

Licensing

| | |
|---|-------|
| Number of renewal applications received | 61 |
| Number of worker registry applications received | 404 |
| Number of original licenses issued | 2 |
| Number of renewal licenses issued | 70 |
| Number of worker registry badges issued | 333 |
| Average Bingo License (Temporary) Processing Time (Days) | 1.16 |
| Average Bingo License (Amendments) Processing Time (Days) | 3.04 |
| Average Bingo License (Originals) Processing Time (Days) | 30 |
| Average Bingo License (Renewals) Processing Time (Days) | 19.35 |

Accounting

| | | |
|--|-----|----------------|
| Number of quarterly reports processed | 930 | |
| Total payments received | 501 | \$8,009,630.76 |
| Received by mail | 228 | \$1,918,656.86 |
| Electronic Payment through Bingo Services Portal | 273 | \$6,090,973.90 |

Audit Services

| | |
|---|----|
| Number of audits and game inspections completed | 14 |
| Number of audits completed | 9 |
| Number of game inspections completed | 5 |
| Number of complaints received | 16 |
| Number of complaint investigations completed | 6 |

Compliance

| | |
|---|------|
| Number of administrative actions | |
| Applications Denied | 0 |
| Settlement Agreements | 0 |
| Agreed Orders | 0 |
| Total administrative penalties received | null |
| Worker Registry Activity | |
| Applications Denied | 0 |
| Workers Removed | 1 |

Education

| | |
|---|----|
| Number of individuals receiving education | 66 |
| On-line | 66 |
| On-site | 0 |

Texas Lottery Commission
Charitable Bingo Operations Division



Fiscal Year 2020
Bingo Annual Audit Plan and Risk Assessment

Michael P. Farrell, Director
Vivian Cohn, Audit Manager

September 1, 2019

Table of Contents

| | |
|---|---|
| Charitable Bingo Audit Charter | 1 |
| Audit Plan | 3 |
| Audit Projects..... | 3 |
| Audit Activities | 3 |
| Proposed Audit and Inspection Projects..... | 4 |
| FY2020 Estimated Projects..... | 4 |
| Risk Assessment Methodology | 5 |

Charitable Bingo Audit Charter

Introduction

This charter sets forth the framework within which the Charitable Bingo Operations Division's Audit Services Department conducts audit and inspection activities. The ultimate responsibility, authorization and approval for all audits rests with the Charitable Bingo Operations Division Director.

Role and Objective

The Charitable Bingo Operations Division (CBOD) Audit Services Department of the Texas Lottery Commission conducts a variety of audit and inspection activities. Its responsibilities are an integral part of CBOD's statutory charge to provide control and supervision over bingo in the state so that bingo is fairly conducted and the proceeds from bingo are used for authorized purposes. The Bingo Enabling Act (BEA) and Charitable Bingo Administrative Rules (Rules) require licensees to operate in accordance with applicable laws and rules. The objective for audit and inspection activities is to determine whether a licensee is in compliance with the BEA and the Rules during the specified review period.

Independence

All Audit Services Department staff shall remain free of influence by any organization or licensee, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in performing audit activities.

Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, auditors shall not develop or install systems or procedures, prepare records, or engage in any other activity that assumes management responsibility.

Audit and inspection activities

The Audit Services Department conducts the following audit and inspection activities.

- Audits
 - Conductor Compliance Reviews (CCR)
 - Limited Scope Reviews
 - Financial Desk Reviews
- Inspections
 - Game Inspections
 - Game Observations
 - Destructions
 - Books and Records
 - Testing of Electronic Card Minding Devices
 - Bingo Complaints

Access to Records

The Audit Services Department staff shall have unrestricted access to all licensee management and staff including volunteers and all records that are relevant to the designated scope and objectives of the engagement.

Professional Standards

All audit and inspection activities are conducted in accordance with professional standards set forth in the Bingo Audit Methodology and Standards (BAMS) Handbook, which provides a framework for performing high-quality audit work with integrity, objectivity, and independence. CBOD's Audit Services Department conforms to all policies and procedures of the Texas Lottery Commission.

Reporting

Each activity classified as an audit results in a written audit report. Upon conclusion of the audit activity, a draft report is provided to the licensed charitable organization being audited, and the auditee's response, if provided and applicable, is included in the final report. The auditee's response normally includes agreement or disagreement with the findings and recommendations, the timetable for anticipated completion of action to be taken, and an explanation for any recommendations not addressed.

A final, written report with auditee's response is provided to the auditee and distributed as appropriate. A copy of each draft or final audit report is forwarded to the CBOD Director for the Determination Process to consider appropriate administrative penalties and actions that may include revocation of license.

The Audit Services Department may conduct appropriate follow-up on audit findings and recommendations as warranted.

Quality Assurance

The Audit Services Department maintains an effective quality assurance review process to include adequate supervision, training and internal quality review to ensure compliance with agency policies, procedures and professional standards.

Periodic Assessment of Audit Charter

This Audit Charter is reviewed annually to assess the continued adequacy and recommend changes if needed.

Audit Plan

The Audit Services Department of the Charitable Bingo Operations Division (CBOD) of the Texas Lottery Commission conducts a variety of audit and inspection activities. The Bingo Enabling Act (BEA) and Charitable Bingo Administrative Rules (Rules) require licensees to comply with all applicable laws and rules. The primary responsibility of CBOD auditors is to conduct audit and inspection activities.

An audit is the formal examination and/or observance of a licensee's accounts, records, and/or business activities by designated employees or representatives of the Commission. Inspections of premises may be performed where bingo is being conducted or is intended to be conducted. The objective for audit and inspection is to determine whether a licensee is in compliance with the BEA and the Rules during the specified review period. This year's Audit Plan also addresses the associated risks related to HB 914 which changed the prize fee allocation process.

Audit Projects

The Audit Plan covers the period beginning September 1, 2019 through August 31, 2020. This plan includes audits and inspections selected based on the results of the Annual Risk Assessment as prescribed by Texas Occupations Code §2001.560(c-1) and other factors. The Audit Services Department establishes risk categories (high, moderate, and low) for audit and inspection projects. To be responsive to continuously changing risks and requests for audit services, the Audit Plan may change based on priorities and audit resources.

Audit Activities

The Audit Services Department conducts audit and inspection activities.

The audit activities encompass three types:

- Conductor Compliance Reviews (CCR) based on the Annual Risk Assessment
- Limited Scope Reviews based on the Annual Risk Assessment, follow-up risk, and upon requests
- Financial Desk Reviews based on the Risk Analysis

The inspection activities encompass six types:

- Game Inspections (GI) based on the Inspection Annual Risk Assessment
- Game Observations (GO) based on the Audit Annual Risk Assessment
- Inspection activities upon request
 - Destructions
 - Books and Records
 - Testing of Electronic Card Minding Devices (ECM)
 - Bingo Complaints

Proposed Audit and Inspection Projects

The Audit Services Department budgets as follows:

Conductor Compliance Reviews

- 200 hours for a single organization audit project
- 400 hours for an accounting unit audit project

Limited Scope Review

- 250 hours

Financial Desk Review

- 150 hours

Electronic Card Minding Devices

- 25 hours

Game Inspections

- 16 hours

The Audit Services Department is authorized 19 Full Time Equivalents (FTEs), which consist of one Audit Manager and 18 auditors.

Based on the results of the Annual Risk Assessment and current resources, it is projected that 105 audit projects and 74 inspection projects will be completed for FY 2020. The actual number of projects completed could change due to unforeseen circumstances, such as significant changes in the industry, legislative requests, staff vacancies, and management priorities.

FY2020 Estimated Projects

| Activity | Type | Number of Projects |
|------------|------------------------------------|--------------------|
| Audit | Conductor Compliance Review (CCR)* | 70 |
| | Limited Scope Review (LSR) | 20 |
| | Financial Desk Review (FDR) | 15 |
| | Total | 105 |
| Inspection | Game Inspections (GI) | 40 |
| | Game Observations (GO) | 25 |
| | Other Inspections Upon Request** | 9 |
| | Total | 74 |

* Projects in the CCR encompass both units and organizations.

Risk Assessment Methodology

Title 13 of the Texas Occupations Code §2001.560(c-1) and Title 16 of the Texas Administrative Code §402.703 are utilized to determine methodology. A Risk Assessment is prepared using data from the Bingo Operations System Service (BOSS) for Audits and Inspections.

Included in the overall evaluation is any recent changes to laws or rules. This includes the results of the 86th Legislative Session which enacted a significant change to the BEA, requiring rule changes, to include methodology for allocation of prize fees to local jurisdictions, merchandise, and the selling of pull-tabs an hour before a bingo occasion. The complexity of these changes on the operations, accounting and payment of prize fees, required it to be addressed and factored into the risk assessment methodology. These areas will be examined during the various projects.

Risk Factors for Audits outlined in Texas Administrative Code §402.703(b)(2) include:

- Gross Receipts
- Bingo Expenses
- Net Proceeds
- Charitable Distributions

Risk Factors for Game Inspections include:

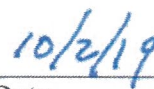
- Gross Receipts Reported for Playing Location
- Time Since Last Game Inspection at Location
- Compliance History

Each risk factor was subjectively weighted by importance and compiled to give each licensee a total score. The total scores were used to categorize the licensee as high, moderate, or low risk. A factor that affects all conductors and is difficult to quantify at this time is the recent changes made by the 86th Legislature which will take effect on January 1, 2020. These changes nonetheless are included in the risk assessment and their weights will be reevaluated as we conduct more audits.

The Audit Charter, Audit Plan, and Risk Assessment are submitted for your approval.



Approved by Bingo Director



Date