MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INTERNAL AUDIT SERVICES

TEXAS LOTTERY

INTERNAL AUDIT REPORTS

DECEMBER 12, 2019

Status Report

Internal Audit Activities

Internal Audit Services' activities during this period (October 1, 2019 through November 30, 2019) include:

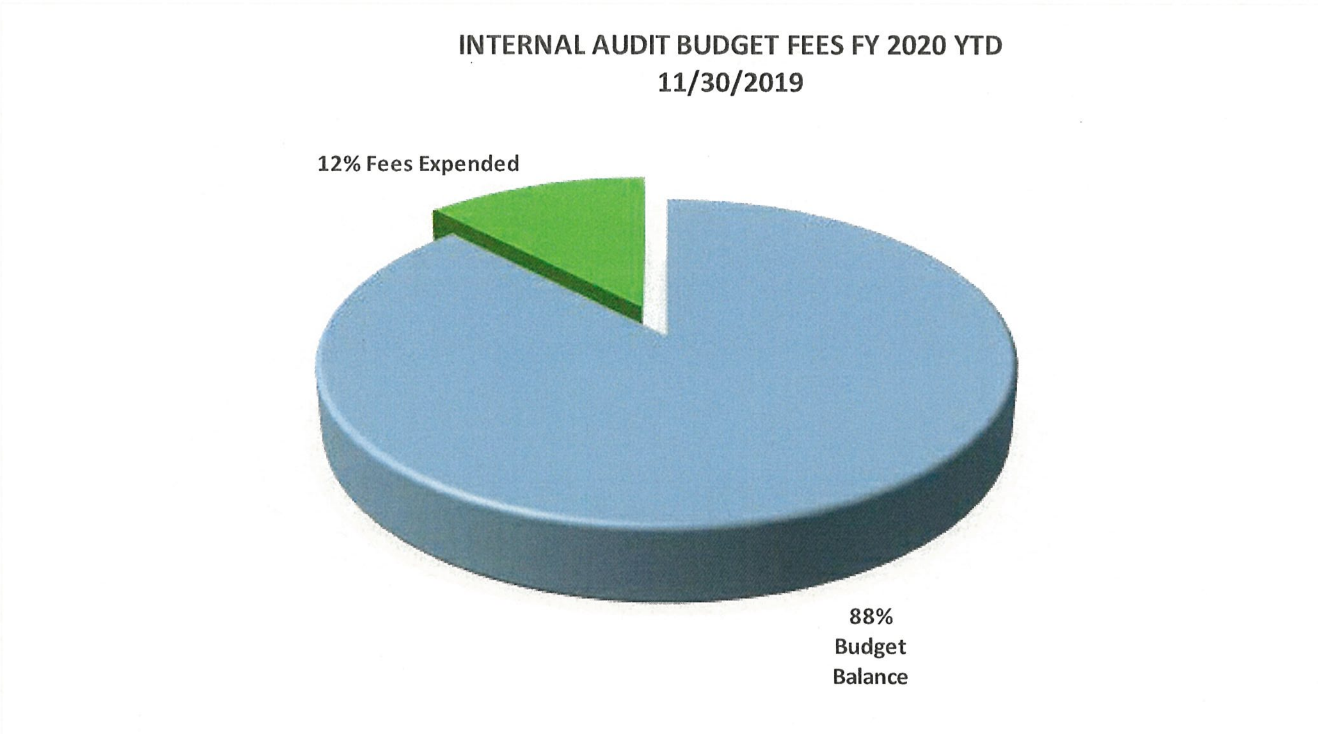
- Commenced the following audits, consulting and advisory services:
  - Background Check Audit
  - Charitable Bingo Operations Division Organization Structure (CBOD)

- Began planning for the following audits:
  - CBOD Enforcement Orders
  - CBOD Implementation of HB 914
  - Records Retention

ACTIVITY #	AUDIT	PLANNING	FIELDWORK	DRAFT REPORT	MGMT. COMMENTS	FINAL REPORTS	ISSUED	COMPLETE
1	Background Investigations	Completed	In-Progress					40%
2	Bingo Enforcement Orders	In-Progress						5%
3	CBOD Implementation of HB 914	In-Progress						5%
4	Records Retention	In-Progress						5%
5	Agency Travel and Expense	Not Started						0%
6	Claim Center and Ticket Validations	Not Started						0%
7	Review of TLC Monitoring and Testing of Lottery Vendor Software Changes Activities	Not Started						0%
8	TLC Warehouse and Receiving	Not Started						0%
9	Ticket Return and Destruction Controls	Not Started						0%
10	Information System User Access Monitoring	Not Started						0%
11	Follow-Up on Prior Audit Findings	Continuous						10%
12	Monitor Fraud/Complaint Hotline	Continuous						5%
13	External Audit / Review Assistance	Not Started						0%
14	Update Risk Assessment & Annual Audit Plan	Not Started						0%
15	Annual Internal Audit Report	Not Started						0%
16	Audit Communications, Committee Meetings, Project Management	Continuous						5%
17	CBOD Organization Review	Completed	In-Progress					10%

LEGEND: Not Started ◆ In-Progress ● Completed ● Continuous ▲

FY 2020 Internal Audit Budget as of November 30, 2019



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.

Internal Audit Activities

Anticipated Internal Audit Services' activities next period (December 1, 2019 through January 30, 2020) include:

- Commence the following audits:
  - CBOD Enforcement Orders
  - CBOD Implementation of HB 914
- Complete the following audits, consulting and advisory services:
  - Charitable Bingo Operations Division Organization Structure (CBOD)
  - Background Check Audit
- Issue the following audit reports:
  - Cyber Security
  - Retailer Incentive Program
  - CBOD Organization Structure

Internal Audit Report Summaries

Summary of Audit Outcomes

Report #	Report Title and Audit Focus	Audit Rating	# of Recommendations	Comments
19-002	Implementation of HB2578	• Effective Internal Controls for Prize Fee Allocation Distribution • Major Improvement Needed for Refund Calculations	Three 1. CBOD should develop a written procedure for reference purposes to act as a methodology for refunds when the need arises. 2. CBOD should update its mailroom procedure to ensure that any conductor license fee and worker registry fee payments made are returned and not accepted and deposited. 3. Reconcile charitable bingo accounts.	• The Office of Controller has sound processes and internal controls in place to ensure accurate and timely distribution of prize fees collected and reported by CBOD. • CBOD's processes in place did not ensure accurate refund calculations. However, the amount is immaterial.

Summary of Audit Outcomes

Report #	Report Title and Audit Focus	Audit Rating	# of Recommendations	Comments
19-003	Game Changes Audit ✓ Discontinuance of "Sum It Up" Feature ✓ Implementation of "FIREBALL" Feature ✓ Cash Five matrix update	✓ Effective Internal Controls ✓ Best Practices Processes	None	The agency has designed process and internal controls to ensure all aspects of draw game(s) are considered and included in any changes or updates.
19-004	Drawings Studio Processes ✓ Ensure that TLC's drawing studio processes retained draw game integrity during the transition of independent audit firms and staff. ✓ Insure adequate controls are in place for ball set maintenance. ✓ Identify potential process improvement opportunities for drawing studio operations.	✓ Best Practices. The recommendations included in the report are to assist in gaining efficiencies or enhancing current effective internal controls.	Two 1. Consider moving Mega millions drawing observations to ICS room. 2. Use bar code security and eliminate manual logs for ball set selection.	Internal controls over the agency's drawing studio processes are best practices. The agency put several processes in place to ensure that game drawing integrity was not compromised during the transition to a new Independent auditor firm.