MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

# INTERNAL AUDIT SERVICES

TEXAS LOTTERY

## INTERNAL AUDIT REPORTS

## FEBRUARY 13, 2020

# Status Report

# Internal Audit Activities

Internal Audit Services' activities during this period (December 1, 2019 through January 31, 2020) include:

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

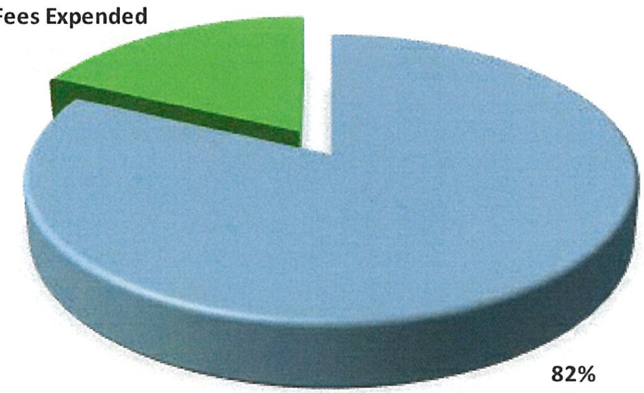
# FY 2020 Annual Internal Audit Plan Status January 31, 2020

| ACTIVITY # | AUDIT | PLANNING | FIELDWORK | DRAFT REPORT | MGMT. COMMENTS | FINAL REPORTS | ISSUED | COMPLETE |
|---|---|---|---|---|---|---|---|---|
| 1 | Background Investigations | 🔵 | 🟢 | | | | | 70% |
| 2 | Bingo Enforcement Orders | 🟢 | | | | | | 5% |
| 3 | CBOD Implementation of HB 914 | 🟢 | | | | | | 5% |
| 4 | Records Retention | 🟢 | | | | | | 5% |
| 5 | Agency Travel and Expense | ♦ | | | | | | 0% |
| 6 | Claim Center and Ticket Validations | ♦ | | | | | | 0% |
| 7 | Review of TLC Monitoring and Testing of Lottery Vendor Software Changes Activities | ♦ | | | | | | 0% |
| 8 | TLC Warehouse and Receiving | ♦ | | | | | | 0% |
| 9 | Ticket Return and Destruction Controls | ♦ | | | | | | 0% |
| 10 | Information System User Access Monitoring | 🔵 | | | | | | 10% |
| 11 | Follow-Up on Prior Audit Findings | ▲ | | | | | | 10% |
| 12 | Monitor Fraud/Complaint Hotline | ▲ | | | | | | 5% |
| 13 | External Audit / Review Assistance | ♦ | | | | | | 0% |
| 14 | Update Risk Assessment & Annual Audit Plan | ♦ | | | | | | 0% |
| 15 | Annual Internal Audit Report | ♦ | | | | | | 0% |
| 16 | Audit Communications, Committee Meetings, Project Management | ▲ | | | | | | 5% |
| 17 | CBOD Organization Review | 🔵 | 🟢 | | | | | 80% |

**LEGEND:** Not Started ♦ In-Progress 🟢 Completed 🔵 Continuous ▲

# FY 2020 Internal Audit Budget as of January 31, 2020

INTERNAL AUDIT BUDGET FEES FY 2020 YTD
1/31/2020




*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 (February 1, 2020 through March 31, 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)
- Issue the following audit reports:
  - TLC Background Check

# 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<br>• Major Improvement Needed for Refund Calculations | Three<br>1. CBOD should develop a written procedure for reference purposes to act as a methodology for refunds when the need arises.<br>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.<br>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.<br>• 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 |
|---|---|---|---|---|
| 19-007 | Lottery Operations Customer Service Program | • Best Practices | None | The Texas Lottery Commission has various processes in place to ensure that exemplary customer service is provided when interacting with the public, Texas Lottery game players, stakeholders and internal staff. In fact, customer responsiveness is one of the agency's six core values.<br><br>Our audit procedures determined that agency staff are trained, courteous, follow established procedures when interacting with Texas lottery game players, retailers, the public and stakeholders; staff ensure mail in claims are secured and processed according to established procedures; and physical security over premises and winning tickets are in place. |
| 19-008 | TLC Cybersecurity Program | • Best Practices | None | The agency has established an effective cybersecurity program that includes processes and activities that extend beyond the minimum requirements established by the state of Texas and the Department of Information Resources.<br><br>We also determined through our audit procedures that the agency has ensured the audits conducted by third-parties address key risk areas related to cybersecurity as well ensuring compliance with the state of Texas mandates outlined in Texas Administrative Code (TAC) 202. |