





**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

# **INTERNAL AUDIT SERVICES**



## **INTERNAL AUDIT REPORTS**

**OCTOBER 1, 2020**

Informational Item



## Internal Audit Activities

Internal Audit Services' activities during this period (July 16, 2020 through September 15, 2020) include:

- Completed the CBOD Enforcement processes audit.
- Continued the agency's Records Retention audit.
- Began an audit of the agency's warehouse processes. (Note: This is not the ticket warehouse.)
- Worked with Lottery Operations leadership to gain an understanding of mail in claims processing and claims center operational adjustments.
- Continued planning the agency's monitoring of vendor software changes audit.
- Finalized the CBOD Implementation of HB 914 audit report.
- Prepared the FY 2020 Annual Internal Audit Report.





# CBOD Implementation of HB 914 Summary

Audit	Audit Rating	Number of Recommendations
20-003 CBOD Implementation of HB 914	Some Improvement Needed	6

**CBOD has implemented applicable requirements of HB 914. This was completed through collective efforts of several agency divisions.**

## Key Findings:

1. Incorrect allocations were made to six jurisdictions as a result of quarterly report processing errors. Five jurisdictions were overpaid a total of \$913.46 and one jurisdiction was underpaid \$2,680.20. (Net impact \$1,766.74)
2. The BOSS County/Municipality Allocation table was not updated for prize fee vote results. CBOD also accepted incomplete prize fee vote resolutions and incorrectly listed the vote status as “yes” for the City of Tuscola, County of Gregg and Kendall on CBOD’s website. Additionally, CBOD Compliance department staff did not perform a secondary review of prize fee voting outcomes.
3. CBOD does not perform detailed prize fee reconciliations to validate that the payments received agree to what was recorded in BOSS and is the correct amount due according to quarterly reports.

## Subsequent Events:

1. Financial records were updated to reflect correct allocation amounts. (CBOD BOSS, TLC MIP and State USAS)
2. Supplemental allocation payment was made to the City of San Antonio.
3. Letters were sent to Laredo, Longview, Webb County, Gregg County and Bexar County informing them of the allocation overpayment and request for reimbursement to the state.
4. Reimbursement to the state has been received from four of the five jurisdictions that were overpaid.
5. Internal written procedure for implementing regulatory changes was drafted.





# FY 2020 Annual Internal Audit Report

- Required by the Texas Internal Auditing Act
- Presented to the Commissioners
- Issued by November 1<sup>st</sup> Each Year
- State Auditors Office Prescribed Contents
  - Publication of internal audit reports on TLC's website
  - FY 2020 Annual Internal Audit Plan status
  - Peer review outcome
  - FY 2021 Annual Internal Audit Plan
  - External audit service procured in FY 2020
  - 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





# FY 2020 Internal Audit Plan Status

*Note:  
Audits in-  
progress  
will be  
completed  
Q1 FY2021*

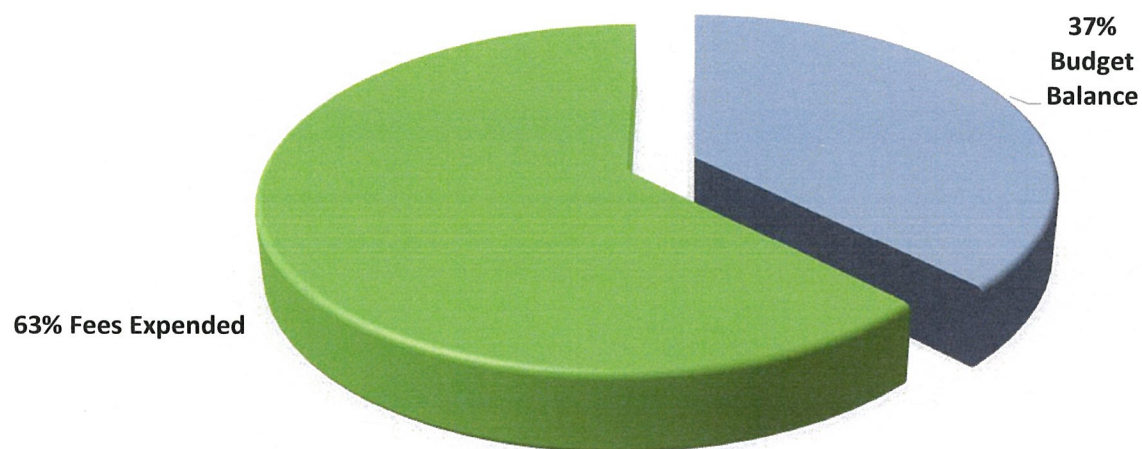
Activity #	Audit	Audit Status	Audit Percentage Complete
1	Background Investigations	Draft Reporting	70 %
2	Bingo Enforcement Orders	Draft Reporting	80 %
3	CBOD Implementation of HB 914	Management Comments	90 %
4	Records Retention	Fieldwork	70%
5	Agency Travel and Expense	Planning	5%
6	Claim Center and Ticket Validations	Fieldwork	10%
7	Review of TLC Monitoring and Testing of Lottery Vendor Software Changes Activities	Fieldwork	10%
8	TLC Warehouse and Receiving	Fieldwork	30%
9	Ticket Return and Destruction Controls	Not Started	0%
10	Information System User Access Monitoring	Completed	100%
11	Follow-Up on Prior Audit Findings	Completed	100%
12	Monitor Fraud/Complaint Hotline	Completed	100%
13	External Audit / Review Assistance	Completed	100%
14	Update Risk Assessment & Annual Audit Plan	Completed	100%
15	Annual Internal Audit Report	Completed	100%
16	Audit Communications, Committee Meetings, Project Management	Completed	100%
17	CBOD Organization Review	Completed	100%





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

INTERNAL AUDIT BUDGET FEES FY 2020 YTD  
8/31/2020



*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 include:

- Continue working with Lottery Operations on the following audit activities:
  - Claims Center Operations
  - Mail In Ticket Claims Processing
- Complete the following audits:
  - Records Retention Program and Processes
  - TLC Monitoring and Testing of Lottery Vendor Software Changes
  - TLC Warehouse and Receiving
- Begin the following audit activities:
  - Work with agency leadership on workforce management activities





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# CBOD Implementation of HB 914 Audit Report

*Note: This Will be Provided Prior to the Meeting*



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# FY 2020 Annual Internal Audit Report





**Texas Lottery Commission  
Internal Audit Services**

**FY 2020 Annual Internal Audit  
Report**

**MJ**

**McCONNELL & JONES LLP**  
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McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

October 1, 2020

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) 2020 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 2020 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 2020 Annual Internal Audit Report is due November 1, 2020.

Please contact Wayne McConnell at 713.968.1600 or Commissioner Robert G. Rivera at 817.240.6371 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA  
Partner

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Suite 320  
Austin, TX 78759  
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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 2020 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2020 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 2020 Internal Audit Plan as of August 31, 2020. Several audits were delayed due to the COVID pandemic. These are now in-progress and anticipated to be completed in September 2020 or incorporated into FY 2021 internal audits.

**FY 2020 Annual Internal Audit Plan Status as of August 31, 2020**

Task #	Description	Report Number	Report Date	Report Title	Audit Status
1	Background Investigations of Vendor Staff	20-005	Audit report anticipated to be issued October 2020	Background Investigations of Vendor Staff	Completed
2	Bingo Enforcement Order Processes	20-002	Audit report anticipated to be issued October 2020	Bingo Enforcement Order Processes	Completed
3	Bingo Implementation of HB 914	20-003	Audit report will be issued September 2020	Bingo Implementation of HB 914	Completed
4	Records Retention	20-004	Audit report anticipated to be issued October 2020	Agency Records Retention Processes	In-Progress Anticipate completion in September 2020





Task #	Description	Report Number	Report Date	Report Title	Audit Status
5	Agency Travel and Expense				Audit postponed until FY 2021
6	Claim Center and Ticket Validations				Audit postponed until FY 2021 and will be included in the claims and prize payment management audit
7	Review of TLC Monitoring and Testing of Lottery Vendor Software Changes Activities				Audit postponed until October 2020
8	TLC Warehouse and Receiving	20-008	Audit report anticipated to be issued October 2020		In-Progress Anticipate completion in September 2020
9	Ticket Return and Destruction Controls				Audit postponed until FY 2021 and will be included with the ticket management audit
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	N/A	N/A	N/A	Completed



Task #	Description	Report Number	Report Date	Report Title	Audit Status
16	Audit Communications, Committee Meetings, Project Management	N/A	N/A	N/A	On-Going
17	Charitable Bingo Operations Review *	20-001	January 5, 2020	An Organization Review of Charitable Bingo Operations Division	Completed

\* Added to the approved audit plan.

N/A = Audit reports are not issued for these audit activities.

### Deviation from Fiscal Year 2020 Internal Audit Plan

Internal Audit modified the internal audit plan by delaying planned audit timing due to the COVID-19 pandemic's impact. The result of these delays is that two audits are in-progress and anticipated to be completed in September 2020. An additional four audits were postponed to FY 2021 and will either be completed as originally planned or incorporated within an audit of the same function.

We also performed a consulting review of the Charitable Bingo Operations Division that was not on the original audit plan.

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

Internal Audit conducted a consulting and advisory services engagement to review the Charitable Bingo Operations Division (CBOD) operations. Audit report #20-001 An Organization Review of Charitable Bingo Operations Division was issued on January 5, 2020.

The organization experienced significant employee turnover in recent years, primarily at the leadership level, within the Audit Services Department and the Accounting Services Department. Additionally, several new employees that joined the agency had already separated. As a result, the workloads of remaining staff increased, and the overall employee morale and job satisfaction decreased. This led to an organization that was not performing to expectations and struggles to perform the daily operations.

Our review focused on the following areas:

- Understanding factors contributing to high employee turnover.
- Determining contributors to the employee morale and satisfaction environment.
- Determining what training may be needed.

We found that for CBOD, the following are the more significant contributors to the employee turnover and operational performance.

- Auditor salaries range from \$6,800 to \$16,200 below market per audit position.
- Prior history of promotions and reassignments to increase salaries regardless of qualifications or performance.
- History of individuals being hired into or placed in positions and assigned responsibilities for which they do not have the required knowledge, experience, or training.

Constant changes caused by top leadership turnover also created an environment of where staff are unsure of expectations and their roles within the organization.





We recommended restructuring the organization, increasing auditor salaries through a multi-year, phased-in approach, reclassifying some positions to align with their responsibilities and tasks, and providing all employees with significant, targeted training.

#### **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.



Now 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/peerreview](http://www.aicpa.org/peerreview). 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: 877-833-4293  
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#### 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. Turner, Stone & Company, LLP, as peer reviewer, has received a peer review rating of *Pass*.

*Turner, Stone & Company, LLP*

Turner, Stone & Company, LLP





## V. FISCAL YEAR 2021 INTERNAL AUDIT PLAN

MJ developed the Fiscal Year 2021 Annual Internal Audit Plan based on results of the annual risk assessment. The risk assessment included reviewing the impact of COVID-19 on the agency's operations 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; security of information systems; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

MJ will conduct seven scheduled audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the FY 2022 Annual Internal Audit Plan and prepare the FY 2021 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,218 hours**. The planned audits, timing and estimated hours are summarized in the table below. We are not performing an audit specifically focused on contract management processes during FY 2021. However, some aspects of contract management will be included in the ticket and game and game management audit. All high-risk areas are included in this year's audit plan except for cyber security. The agency underwent a comprehensive security study by an external consulting firm during FY 2020. Each of our planned audits will incorporate information technology and data security controls.

### FY 2021 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Claims Center Review (Business Processes Analysis)	High	September 2020 - October 2020	245
2	Workforce Management	High	On-Going	325
3	Payroll Processes	High	September 2020 - October 2020	185
4	Agency Travel and Expense	High	Nov-20	221
5	Claims and Prize Payment Management	High	December 2020 - January 2021	329
6	Ticket and Game Management	High	February 2021- April 2021	329
7	Drawings Studio Operations	High	On-Going	269
8	Information System User Access	High	On-Going	65
9	Follow-Up on Prior Audit Findings	Compliance	On-Going	77
10	Monitor Fraud/Complaint Hotline	Compliance	On-Going	8
11	External Audit / Review Assistance	N/A	On-Going	8
12	Update Risk Assessment & Annual Audit Plan	Compliance	July 2019	97
13	Annual Internal Audit Report	Compliance	August 2019	7



Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
14	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	53
	<b>Total Hours</b>			<b>2,218</b>
	<b>Total Fees</b>			<b>\$298,764</b>

## VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2020

The following represent external audit services that were procured by the Texas Lottery Commission or were ongoing in fiscal year 2020.

Audit / Review	Auditor
Drawings Studio Independent Auditor Certifications	Weaver and Tidwell, LLP
FY19 Financial Audit Services	Weaver and Tidwell, LLP
Security Study	Berry Dunn

## 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).