

INTERNAL AUDIT SERVICES



INTERNAL AUDIT REPORT OCTOBER 29, 2024

Information Items



Internal Audit Activities

Internal Audit Activities Completed This period:

- Completed Procurement and Contracting Audit
- Completed Retailer Incentive & Bonus Program Audit
- Prepared FY2024 Annual Internal Audit Report
- Commenced Advisory Engagement of CBOD Licensing Processes

Internal Audit Activities Anticipated Next Period:

- Continue Advisory Engagement of CBOD Licensing Processes
- Continue Claims and Prize Payment Management Audit



Procurement and Contracting Audit Report Summary

Audit	Audit Rating	Number of Recommendations
24-003 Procurement and Contracting Processes	Generally Effective with Best Practice Processes	0

Opportunities to Enhance Existing Controls and Processes:

We provided management with recommendations on how to enhance current controls and processes in place.

Audit Focus:

- Adherence to TLC Policy
- Conflict of Interest and Ethics
- Solicitation Process
- Solicitation Evaluation
- Contract Award
- Contract Monitoring
- Vendor Performance Reporting
- Contract Value True-Ups
- Needs and Risk Assessments
- Contract Close-Out

Best Practices Noted:

- ✓ Formal, mature process are in place for reviewing and updating policies and procedures to explicitly address applicable legislation.
- ✓ Procurement and contracting processes follow checklists designed to address relevant policies and procedures.



Retailer Incentive Program Audit Report Summary

Audit	Audit Rating	Number of Recommendations
24-005 Retailer Incentive & Bonus Programs	Generally Effective with Best Practice Processes	0

Opportunities to Enhance Existing Controls and Processes:

We provided management with recommendations on how to enhance current controls and processes in place.

Audit Focus:

We assessed controls and processes within the Retailer Cash Incentive Program (RCIP) and Bonus Payment Program to ensure accuracy of payments to eligible participants and that the programs are administered:

- In compliance with applicable legislation.
- In compliance with internal policies and procedures.

Best Practices Noted:

- ✓ Formal, mature process exists for reviewing and updating policies and procedures to explicitly address applicable legislation.
- ✓ RCIP and Bonus Payment Program processes are shared effectively across multiple Divisions and external parties to ensure accurate calculations and approvals for all retailer cash incentive and bonus payments.



FY2024 Annual Internal Audit Report

- Required by the Texas Internal Auditing Act
- Presented to the Commissioners
- Issued by November 1st Each Year
- State Auditors Office Prescribed Contents
 - Publication of internal audit reports on TLC's website
 - FY 2024 Annual Internal Audit Plan status
 - Peer review outcome
 - FY 2025 Annual Internal Audit Plan
 - External audit service procured in FY 2024
 - 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

2024 Budget to Actual:
Expended \$124,868 (42%) of \$300,00 Budget

A copy of the full report was provided to Commissioners via email.



Annual Independence Statement

Purpose of Annual Independence Disclosure Statement

This document outlines the independence of TLC's internal audit function with the purpose of providing transparency and assurance that the audits are conducted objectively and without any undue influence that could compromise the integrity of the process.

If any impairments should arise of the Chief Audit Executive or any other internal audit team member, in fact or appearance, it must be disclosed to the Texas Lottery Commission's Commissioners and the Executive Director.

Disclosure: McConnell Jones had no impairments to our independence in FY2024.

Note: The full disclosure statement was provided to Commissioners.

Texas Lottery Commission INTERNAL AUDIT ANNUAL INDEPENDENCE DISCLOSURE STATEMENT

This annual internal audit independence disclosure statement is a document that outlines the independence of Texas Lottery Commission's (TLC) internal audit function. The purpose of this statement is to provide transparency and assurance that the internal audit activities are conducted objectively and without any undue influence that could compromise the integrity of the audit process. The Texas Lottery Commission (TLC / Agency) has contracted with an external Certified Public Accounting firm, McConnell Jones, to administer its internal audit function. MJ's partner serves as the Agency's Chief Audit Executive.

Introduction:

The Institute of Internal Auditors (IIA) Attribute Standard 1100 states "The internal audit activity must be independent, and internal auditors must be objective in performing their work".

Independence is a crucial aspect of internal auditing as it ensures that the audit function can provide unbiased and reliable assessments of the organization's operations, controls, and financial reporting. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

The internal auditor must be independent in mind and in appearance. To achieve the degree of independence necessary to effectively carry out responsibilities of the internal audit activity, the internal auditor has direct and unrestricted access to senior management and the Commissioners. The internal audit function operates under the direction of the Commissioners. The chief audit executive reports functionally to the Audit Committee.

TLC's internal audit function is organized as shown below.

