

# TRANSFERS TO THE STATE OF TEXAS

*Based on our review, Texas Lottery transfers to the state in fiscal years 2010 – 2012 have been processed accurately, on time, and in accordance with applicable laws, rules, and regulations.*

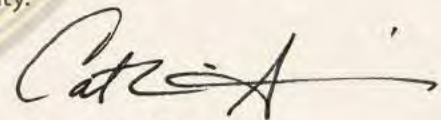
## Overview

The Texas Lottery has generated over \$20 billion for the state of Texas since the first ticket was sold in 1992. Prior to 1997, all lottery proceeds were allocated to the General Revenue Fund. Since 1997, most lottery proceeds have been dedicated to the Foundation School Fund to support public education in the state. Other Texas Lottery funds such as unclaimed prizes revert back to the state for programs authorized by the Texas Legislature. Beginning in fiscal year 2010, certain Texas Lottery proceeds from specific instant ticket games also benefit the Fund for Veterans' Assistance.<sup>1</sup>

Internal Audit has completed a review of the transfers of lottery proceeds made to the State of Texas, as specified in the approved Fiscal Year 2012 Internal Audit Activity Plan. This is a core function in the agency. Our review process was designed to verify the accuracy and timeliness of transfers to the state. In addition, Internal Audit evaluated the adequacy and effectiveness of controls in place to ensure transfers are processed in accordance with applicable laws, rules and regulations, as well as agency policies and procedures.

Accordingly, our audit included an analysis and review of all transfers, including year-end transfers, made in fiscal years 2010, 2011, and 2012. Transfer data from fiscal years 1998 through 2009 was also analyzed, but not tested.

Based on our review, Internal Audit found that transfers in fiscal years 2010 through 2012 have been processed accurately and timely. Appropriate internal controls are in place to ensure transfers are processed in accordance with applicable laws, rules and regulations, as well as agency policies and procedures. Internal Audit recommends the Office of Controller ensure employees are adequately cross-trained to perform this important core duty.



Catherine Melvin  
CPA, CIA, Director of Internal Audit

## Transfers by the Numbers<sup>2</sup>

Fiscal Year	Foundation School Fund	Texas Veterans Commission <sup>*</sup>	Unclaimed Prizes <sup>^</sup>	Multicategorical Teaching Hospital Account	Total
2012	\$1,096,489,999	\$5,305,416	\$52,326,845	\$5,750,000	\$1,153,560,513
2011	\$963,172,500	\$8,658,018	\$53,789,921	\$10,000,000	\$1,025,094,172
2010	\$1,000,434,318	\$7,328,844	\$86,859,465	\$10,000,000	\$1,094,622,627
2009	\$1,000,405,304	-	\$43,088,652	\$10,000,000	\$1,043,493,956

<sup>\*</sup> Includes transfers from sales and unclaimed prizes related to Texas Veterans Commission games

<sup>^</sup> Includes transfers from the Multicategorical Teaching Hospital Account, Texas Veterans Commission and General Revenue



# Audit Results

Internal Audit performed testing of all transfers made during fiscal years 2010, 2011, and 2012. Testing revealed transfers were completed accurately and on time. Transfers were also completed in compliance with applicable laws, rules, and regulations, as well as, agency policies and procedures. Internal Audit determined the Office of Controller has several controls in place to ensure transfers are completed as prescribed, including but not limited to:

- Step-by-step procedures
- Supervisory review of all calculations and work papers
- Cross-referencing of lead schedules to supporting documentation
- Linking between Excel spreadsheets
- Controller provides final approval of transfer work papers and journal vouchers.

Several external agencies provide an additional control over transfers, including the Legislative Budget Board, the State Comptroller of Public Accounts, and the Texas Veterans Commission. While these agencies do not have a formal role in completing the transfer process, the agencies are alert to any changes in the amounts transferred.

The responsibility for the monthly transfer and preparation of supporting documents has been assigned to a single staff member for the past several years. During the course of our audit, we noted limited cross-training and rotation of these

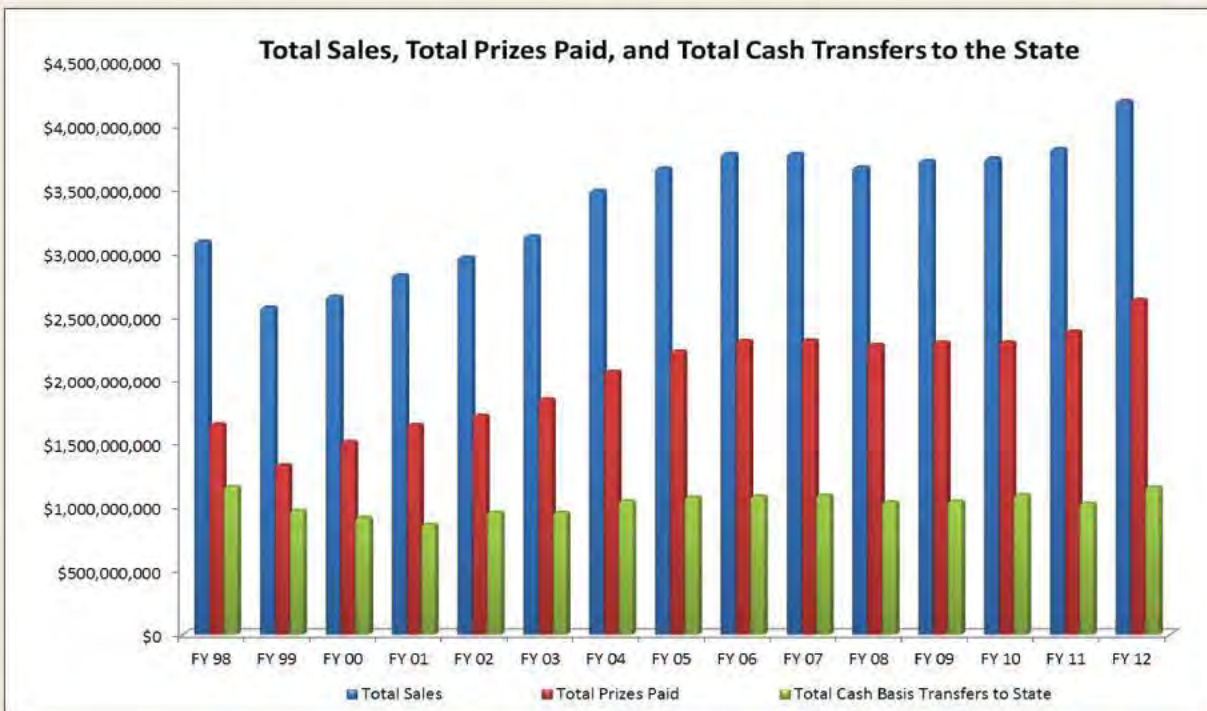
responsibilities. We also noted the following during the course of our audit: the Financial Accounting and Reporting Manager (responsible for supervisory review of the transfer documents) separated from the agency, a new manager was appointed as the responsible manager, and the responsible staff member's workload expanded. Notwithstanding these challenges, the monthly transfers continued to be completed accurately, on time, and in compliance with applicable requirements. Internal Audit did express concern regarding the need for cross-training and rotation of these responsibilities. At the time of our discussion, the Office of the Controller had already begun efforts to cross-train another staff member to assist with the performance of the monthly transfers.

## Recommendation

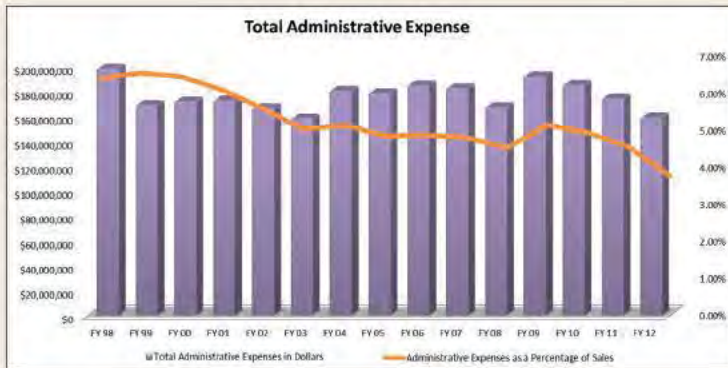
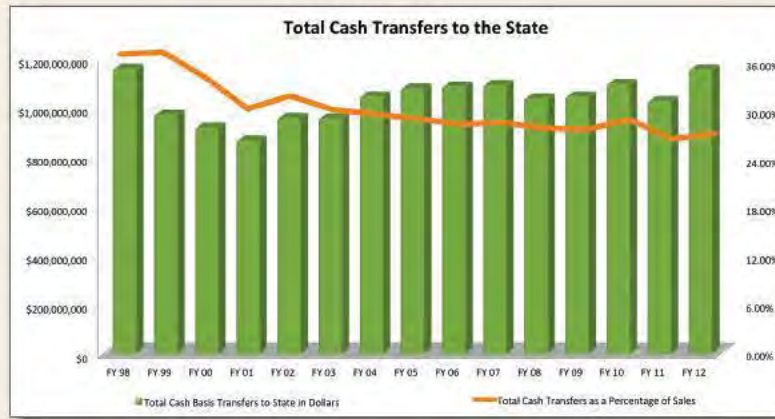
Internal Audit recommends the Office of Controller ensure additional staff members are adequately cross-trained and rotated in performing the monthly transfers, including the calculation of unclaimed prizes, to ensure continued uninterrupted performance of this important core function.

## Management Response

*Management agrees with the recommendation and the recommendation has been fully implemented. More than one staff member within the Office of the Controller is trained in the preparation and review of the monthly transfer calculation and associated calculation of unclaimed prizes. This job function will continue to be rotated in the future to ensure uninterrupted performance of this job responsibility.*







$$\text{Total Sales} - \text{Prizes Paid to Winners} - \text{Retailer Payments} - \text{Administrative Expenses} = \text{Transfer to the State}$$

### Transfers by Area

The agency’s mission states in part, “The Texas Lottery is committed to generating revenue for the State of Texas through the responsible management and sale of entertaining lottery products.” The agency transfers proceeds from the sale of lottery products to the following funds:

#### Foundation School Fund

As required by Texas Government Code §466.355, the agency transfers money from the state lottery account to the Foundation School Fund. Transfers must be completed by the 15<sup>th</sup> of each month. If the 15<sup>th</sup> falls on a weekend or holiday, the transfer must be submitted by the previous business day. Unspent administrative allocations retained by the agency during the fiscal year are also transferred to the Foundation School Fund. These transfers occur after all year-end accruals and encumbrances are identified in the agency’s financial statements. On January 15, 2013, the Executive Director announced transfers to the Foundation School Fund have surpassed \$15 billion.

#### Fund for Veterans’ Assistance

Beginning in fiscal year 2010 and as required by Texas Government Code §466.027 and §466.408, the agency operates instant ticket games in support of the Fund for Veterans’ Assistance. Transfers to this fund must be completed

by the 15<sup>th</sup> of each month. If the 15<sup>th</sup> falls on a weekend or holiday, the transfer must be submitted by the previous business day. Unclaimed prizes associated with these specific instant ticket games, not to exceed \$5 million in each fiscal year, are calculated monthly and transferred quarterly to the fund. For fiscal years 2010 through 2012, the Texas Lottery Commission has transferred over \$21 million to this fund.

#### Multicategorical Teaching Hospital Account

As required by Texas Government Code §466.408 (b) (1), the agency transfers unclaimed prize money to the Multicategorical Teaching Hospital Account up to an amount prescribed by legislative appropriation. This transfer usually occurs within the first quarter of the fiscal year.

#### Unclaimed Prizes

As required by Texas Government Code §466.408 (b)(2), the agency deposits all remaining unclaimed prize money not specifically appropriated by the legislature to the general revenue fund to be used for “any purpose as determined by the legislature”. Unclaimed prize money transfers are calculated monthly and transferred quarterly. For fiscal years 2004 through 2012, the agency has transferred over \$378 million in unclaimed prizes to the General Revenue Fund.





# Audit Standards

## Audit and Scope

Internal Audit evaluated the adequacy and effectiveness of controls in place to ensure transfers to the state are processed in accordance with applicable laws, rules, and regulations, as well as agency policies and procedures. Accordingly, our audit included an analysis and review of all transfers, including year-end transfers, made in fiscal years 2010, 2011, and 2012. Transfer data from fiscal years 1998 through 2009 was also analyzed, but not tested.

## Methodology

In accomplishing our objective, Internal Audit evaluated the transfer calculation process to ensure: 1) reliability and integrity of information, 2) compliance with applicable requirements, 3) appropriate segregation of duties, 4) economical and efficient use of resources, and 5) accomplishment of goals and objectives. Internal Audit observed the transfer process and performed testing on various attributes related to requirements in the procedures. Internal Audit interviewed responsible management and staff, examined and reviewed supporting documentation and electronic files, and performed selected test work as deemed necessary. We relied upon other independent audit work as relevant and appropriate.

## Auditor’s Consideration of Fraud

In accordance with our professional standards, Internal Audit considered risks due to fraud that could significantly affect our audit objectives and the results of our audit. Accordingly, we designed our procedures to provide reasonable assurance of detecting fraud significant to the audit objectives. During the course of the audit, we were also alert to situations or transactions that could be indicative of fraud. We conducted our audit to provide reasonable assurance of detecting illegal acts or fraud that could significantly affect the audit results; however, it does not guarantee the discovery of illegal acts or fraud.

## Professional Standards

Internal Audit conducted this performance audit in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors (IIA) in conjunction with generally accepted government auditing standards (GAGAS) as promulgated by the U.S. Government Accountability Office (GAO). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Report Distribution

This report is intended solely for the information and use of the Lottery and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.

## References

- <sup>1</sup> Texas Lottery Commission, Comprehensive Strategic Plan, FY 2013-2017, amounts updated.
- <sup>2</sup> Texas Lottery Commission Summary Financial Information

