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An Audit Report on

# **The Charitable Bingo Operations Division at the Texas Lottery Commission**

September 2010

Report No. 11-002



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### *Overall Conclusion*

The State Auditor's Office verified that five bingo halls distributed game proceeds for charitable purposes and remitted 5 percent of prize fees to the State as required by statute and Texas Lottery Commission (Agency) rules for the quarter ending December 31, 2009. In addition, the Agency has policies and procedures to help ensure that it licenses only qualified entities to conduct bingo games.

However, the Agency should increase its financial monitoring of bingo halls to help ensure that they comply with all applicable laws and regulations. All 11 compliance audits and reviews the Agency conducted in calendar year 2009 were initiated by complaints, and the 337 game inspections the Agency conducted in calendar year 2009 did not include a review of bingo halls' financial information. The Agency's on-site monitoring reviews at bingo halls have concentrated on conducting game inspections, which focus on a limited review of bingo operations.

During the State Auditor's Office's on-site visits at five bingo halls, auditors identified discrepancies that indicate the Agency should increase its financial monitoring. For example:

- \$29,369.95 (5 percent) of the \$546,355.10 in expenditures tested at four bingo halls were not allowable under the Bingo Enabling Act.
- \$27,659.81 (5 percent) of the \$546,355.10 in expenditures tested at the five bingo halls were not supported by adequate documentation (although those expenditures appeared to be allowable based on the description of the expenditures provided to auditors).
- Two bingo halls' inventory records listed boxes of pull tab bingo games and/or bingo cards that the bingo halls could not locate.

#### **Background Information**

There are 473 bingo halls in Texas.

As of July 26, 2010, gross receipts from bingo sales in calendar year 2009 totaled \$693,091,131. Of that amount:

- \$518,173,188 (75 percent) was paid to players (\$25,339,189 of the \$518,173,188 was remitted to the State).
- \$35,975,732 (5 percent) was distributed to charities.
- \$138,942,211 (20 percent) was retained by the bingo halls to cover their expenditures.

The \$693,091,131 in 2009 bingo sales included:

- \$318,574,832 (46 percent) from pull tab bingo game sales.
- \$214,064,676 (31 percent) from bingo card sales.
- \$160,451,623 (23 percent) from electronic bingo card sales.

Source: Texas Lottery Commission, Charitable Bingo Operations Division.

Monitoring bingo halls' financial information and inventories would provide additional assurance that bingo halls report accurate information to the Agency and comply with requirements. Conducting this monitoring also could potentially increase the bingo halls' distributions to the charities for which they conduct bingo games. For example, identifying unallowable expenditures could potentially increase the amount of net proceeds from bingo games, which would ultimately lead to the bingo halls distributing more funds to the charities.

Auditors also identified other less significant issues that were communicated separately in writing to Agency management.

### ***Summary of Management's Response***

The Agency agreed with the recommendations in this report and provided the following summary of its management's responses:

*Management of the Charitable Bingo Operations Division fully agrees with the recommendations in this report, and has already taken several actions regarding implementing the recommendations.*

*While there are limited staff resources funded for monitoring financial information and inventories of bingo halls, management is committed to improving areas noted in this report.*

*The Charitable Bingo Operations Division's detailed management responses to the specific recommendations are presented immediately following each set of recommendations in the Detailed Results section of this report.*

*Management appreciates the diligence with which the State Auditor's team worked to understand and evaluate the bingo industry, a unique and complex area of regulation.*

### ***Summary of Information Technology Review***

The Agency should strengthen certain controls over its Automated Charitable Bingo System (ACBS), the system it uses to issue, review, and track information on bingo licenses. Auditors identified opportunities to improve areas such as access controls and segregation of duties. In addition, the Agency is not using certain capabilities of ACBS to identify when licensees do not submit required reports. It is important that licensees submit those reports because the Agency uses the information in those reports to determine the fee it will charge licensees to renew licenses. The Agency also should update ACBS to produce exception reports that would help to ensure compliance with the Bingo Enabling Act.

## ***Summary of Objective, Scope, and Methodology***

The objective of this audit was to determine whether the Agency's Charitable Bingo Operations Division has controls to verify that proceeds are distributed for charitable purposes in compliance with state laws and agency rules.

The scope of this audit covered licensing documentation for conductor and lessor licenses the Agency issued from January 1, 2007, through December 31, 2009; Audit Services reports completed and charitable bingo complaints closed from January 1, 2008, through December 31, 2009; and five bingo halls' financial records, perpetual inventory records, and supporting documentation from October 1, 2009, through December 31, 2009.

The audit methodology included collecting information and documentation; conducting interviews with Agency and bingo hall staff; analyzing and evaluating the results of testing; observing processes; and reviewing policies, procedures, statutes, and the Texas Administrative Code. Auditors also visited five bingo halls to determine whether the bingo halls' financial information complied with statutes and the Texas Administrative Code. In addition, auditors reviewed the Agency's information technology related to the audit objectives.

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# Detailed Results

## Chapter 1

### *The Agency Should Increase Its Financial Monitoring of Bingo Halls to Help Ensure Compliance With All Laws and Regulations*

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The Texas Lottery Commission (Agency) should increase its financial monitoring of bingo halls to help ensure that they comply with all applicable laws and regulations. The Agency conducts game inspections and compliance audits and reviews at bingo halls. According to the Agency, in 2009 it conducted 337 game inspections. However, in 2009 it conducted 11 compliance audits and reviews, all of which, according to the Agency, were prompted by a complaint.

The Agency conducted game inspections at 68 percent of bingo halls in 2009.

The Agency asserts that its goal is to conduct an annual game inspection at each bingo hall in the state. According to the Agency, in 2009 it conducted 337 game inspections at 323 (68 percent) of the 473 bingo halls in the state. The Agency asserted that the remaining 150 bingo halls would be the first bingo halls at which it planned to conduct game inspections in 2010.

Game inspections determine whether bingo halls maintain records and information required by the Bingo Enabling Act and the Texas Administrative Code. Examples of what game inspections verify at a bingo hall include whether the bingo hall:

- Displays a current bingo license.
- Has an authorized operator present during bingo games.
- Makes a current copy of the Bingo Enabling Act and Bingo Hall rules available to any person.
- Ensures that employees do not play bingo while they are on duty.

The Agency should increase the number of compliance audits and reviews at bingo halls.

The Agency's compliance audits and reviews, which are more detailed than game inspections, determine whether a bingo hall:

- Has records and accounts that accurately reflect its financial operations.
- Maintains effective accounting and internal controls.
- Receives funds for authorized purposes.

According to the Agency, compliance audits and reviews examine documentation that covers a time period of up to four years, while a game inspection examines only one bingo event observed on a selected day. Because the Agency did not focus on performing compliance audits and reviews during 2009, bingo halls did not receive the level of monitoring that would help to ensure that they comply with all laws and regulations. The Agency has developed an audit program that, if used, will evaluate bingo halls' financial processes and compliance with laws and regulations.

The State Auditor's Office visited five bingo halls and observed at least one bingo game at each location. Auditors confirmed that the bingo halls distributed proceeds to charities and remitted the correct amount of prize fees to the State for the quarter ending December 31, 2009. However, in reviewing the bingo halls' financial and inventory records, auditors identified issues that indicate the Agency should increase its compliance audits and reviews at bingo halls.

At each of the five bingo halls, auditors reviewed financial records for the quarter ending December 31, 2009. Items that auditors reviewed included expenditures and supporting documentation, inventories of bingo cards and pull tab bingo games, and cash deposits. As Table 1 shows, auditors identified inadequate supporting documentation for expenditures, questionable expenditures, instances in which bingo cards and/or pull tab bingo games were missing, and weaknesses in controls over cash.

Monitoring bingo halls' financial information and inventories would provide additional assurance that bingo halls report accurate information to the Agency and comply with requirements. Conducting this monitoring also could potentially increase the bingo halls' distributions to the charities for which they conduct bingo games. For example, identifying unallowable expenditures could potentially increase the amount of net proceeds from bingo games, which would ultimately lead to the bingo halls distributing more funds to the charities.

Table 1

Issues Identified in Five Bingo Halls' Financial and Inventory Records for the Quarter Ending December 31, 2009	
Issue	Number of Bingo Halls at Which Auditors Identified Issue
Inadequate supporting documentation for expenditures.	5
Questionable expenditures.	4
Missing bingo cards and/or pull tab bingo games.	2
Weaknesses in controls over cash.	2

### Questionable Expenditures

At four of the bingo halls visited, \$29,369.95 (5 percent) of the \$546,355.10 in expenditures that auditors tested were not allowable under the the Bingo Enabling Act (specifically, Texas Occupations Code, Section 2001.453) and Title 16, Texas Administrative Code, Section 402.505. Examples included questionable expenditures for:

- Items that did not benefit the bingo hall or the charity.
- Reimbursements for cell phone bills that were two years old.
- Repairs to items that the bingo halls did not use to conduct bingo games.

It is important that bingo halls make only allowable expenditures to ensure that they spend funds as intended by the Bingo Enabling Act and the Texas Administrative Code.

### Inadequate Supporting Documentation for Expenditures

Auditors tested a total of \$546,355.10 in expenditures at the five bingo halls and determined that the bingo halls did not have adequate supporting documentation for a total of \$27,659.81 (5 percent) of those expenditures (although those expenditures appeared to be allowable based on the description of the expenditures provided to the auditors). Title 16, Texas Administrative Code, Section 402.506, requires bingo halls to have adequate supporting documentation for expenditures.

Supporting documentation was inadequate for the \$27,659.81 in expenditures because the bingo halls did not have receipts for purchases, did not have copies of contracts related to those expenditures, did not retain employee timesheets, or supported expenditures with invoices that were outdated.

It is important that bingo halls retain adequate supporting documentation for their expenditures to ensure that they spend funds in accordance with Texas Administrative Code requirements.

### Missing Bingo Cards and/or Pull Tab Bingo Games

Two of the five bingo halls could not locate bingo cards and/or pull tab bingo games listed in their inventory records. Title 16, Texas Administrative Code, Section 402.511, requires bingo halls to maintain inventory records that account for all sold and unsold bingo cards and pull tab bingo games.

However, auditors identified the following:

- One bingo hall could not locate 4 boxes of pull tab bingo games and 361 bingo card booklets that were listed in its inventory records.



- One bingo hall could not locate 58 bingo cards and 2 bingo card booklets that were listed in its inventory records.

Properly tracking and accounting for bingo cards and pull tab bingo games is important in ensuring that these items are not lost or stolen and in ensuring compliance with Texas Administrative Code requirements.

#### Weaknesses in Controls Over Cash

Two of the bingo halls did not have proper controls over cash. For example, employees left cash drawers open and unattended, and they did not conduct secondary reviews of daily cash reports and daily cash deposits.

Having strong controls over cash can reduce the risk of funds being misappropriated or stolen. However, it is important to note that, for the bingo games that the auditors observed, auditors did not identify any instances in which funds were misappropriated or stolen as a result of the weaknesses in cash controls identified at these two bingo halls.

#### Recommendations

The Agency should:

- Increase its financial monitoring visits at bingo halls' to review financial information and documentation that supports the quarterly reports the bingo halls submit to the Agency.
- Consider using a risk-based methodology to select bingo halls for on-site monitoring reviews. In addition to complaints, in its methodology for selecting bingo halls for on-site monitoring reviews, the Agency should consider analyzing factors such as bingo halls' history of compliance and length of time between the Agency's monitoring reviews.

#### Management's Response

*Management concurs with the recommendation and has already implemented corrective actions.*

*The Charitable Bingo Operations Division appreciates that the SAO audit team validated that there is a need to increase the financial monitoring of bingo hall's financial information and inventory. The Audit Services Department (Department) of the Charitable Bingo Operations Division recently implemented a new audit program and revised the Audit Charter. The charter sets forth the framework within which the Department will operate to conduct audits. The new audit program incorporates the additional requirements recently passed with HBI474 during the 81st*

*Legislative Session effective October 1, 2009 and includes a review of financial information and documentation that support the quarterly reports. The overall audit objective, Determine if Proceeds from Charitable Bingo are used for Authorized Purposes, is broken into sub-objectives:*

- *Determine if the organization's bingo fund reconciliation is properly reported*
- *Determine if sales, prizes paid and prize fees withheld are complete and accurately reported*
- *Determine if the organization's bingo expenses are reasonable or necessary and are complete and accurate*
- *Determine if the organization's charitable distributions are used for authorized purposes and are complete and accurate*

*The Department began implementation of the new audit program in March 2010 at two locations to assist with considering any enhancements and modifications to incorporate. A full statewide implementation occurred beginning late June early July 2010 after auditor training of the new program in June 2010. A risk-based methodology is used to select the bingo halls for these compliance reviews. Analyzing factors used in the risk-based methodology include history of compliance and length of time between monitoring activities. At this time, 12 compliance reviews are in progress using the new audit program.*

*Management is committed to increase the number of financial monitoring and will continue to consider and enhance regulatory coverage to address public complaints, perform and conduct audits of quarterly financial information and monitor and provide oversight of bingo games to increase integrity and public reliance that games are being conducted fairly and in compliance with regulations. Management has attempted to balance these areas using available staff resources. In 2009, approximately 30 percent of audit resources performed complaint investigations, 20 percent performed audits and 50 percent conducted game inspections. With the new audit program, the goal is to achieve financial monitoring and coverage over more licensed organizations, increasing the number of audits per year. However, limited budget and staff resources may impact the desired audit activity goals and achievements of the FY2011-FY2012 target performance measures.*

*Person Responsible for Implementation: Manager, Audit Services Department, Charitable Bingo Operations Division*

*Target Date for Implementation: Completed. Currently 12 financial compliance audits are in progress. Audits were selected using a risk based methodology.*

## ***The Agency Has Policies and Procedures to Help Ensure That It Licenses Only Qualified Entities to Conduct Bingo Games, But It Should Ensure That Its Licensing Files Are Complete***

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### **Conductors and Lessors**

"A lessor is an individual who is licensed to lease premises for the purpose of conducting bingo."

"A conductor is a licensed authorized organization that holds a license to conduct bingo."

Source: *2009 Annual Report*, Charitable Bingo Operations Division, Texas Lottery Commission.

The Agency has policies and procedures to help ensure that it licenses only qualified entities to conduct bingo games. Auditors tested licenses that the Agency issued to lessors and conductors during calendar years 2007, 2008, and 2009 (see text box for definitions of lessors and conductors). During those years, the Agency complied with the Bingo Enabling Act and the majority of its policies and procedures for the lessors that auditors tested. It also complied with the Bingo Enabling Act and policies and procedures for the majority of the conductors that auditors tested.

Auditors also verified that the Agency ensures that bingo licensees remit the correct amount of license fees to the State. For lessors, the amount of license fees remitted is based on gross rentals; for conductors, the amount of license fees remitted is based on gross receipts.

The Agency should ensure that its licensing files for lessors are complete.

The Agency complied with the Bingo Enabling Act and the majority of its policies and procedures for licensing the lessors that auditors tested. Auditors tested 30 lessor files (those files covered 34 licenses because some lessors have licenses for multiple bingo halls), and all 30 files included:

- Completed background checks, as required by the Bingo Enabling Act.
- Documentation stating that the applicant did not have a lessor license revoked in the last year, as required by the Bingo Enabling Act.
- An application that was completed and signed by the lessor, as required by Agency policies and procedures.
- A completed Agency checklist signed by the preparer (an Agency employee) and the reviewer (a second Agency employee), as required by Agency policies and procedures.

However, the Agency's lessor licensing files were not always complete. Specifically:

- For 28 of the 34 lessor licenses tested, the Agency's policies and procedures required the files to include a game schedule with the application. However, 2 (7 percent) of those 28 files did not have this schedule in the file during this audit. Completed checklists in those two

files indicated that the game schedules existed at the time the Agency approved those two licenses.

- For 2 (6 percent) of the 34 lessor licenses tested, information in the file did not match information in the Automated Charitable Bingo System (ACBS), which is the system the Agency uses to issue, review, and track information on bingo licenses. For these two licensees, the officers and directors included on the applications in the file did not match the officers and directors the Agency recorded in ACBS.

The Agency should ensure that its licensing files for conductors are complete.

The Agency complied with the majority of the requirements in the Bingo Enabling Act and its policies and procedures for licensing conductors. Auditors tested 43 conductor files and identified the following:

- For 40 of the 43 conductor files tested, the Agency was required by the Bingo Enabling Act to have documentation stating that the applicant did not have a conductor license revoked in the last year. The Agency complied with this requirement for all 40 of these conductors.
- All 43 conductor files that auditors tested included:
  - An application that was completed and signed by the conductor, as required by Agency policies and procedures.
  - A completed Agency checklist signed by the preparer (Agency employee) and the reviewer (second Agency employee), as required by Agency policies and procedures.
  - Documentation confirming the existence of a charity on whose behalf the conductor held bingo games, as required by the Bingo Enabling Act.

However, the Agency's conductor licensing files were not always complete. Specifically:

- All 43 conductors tested were required by the Bingo Enabling Act to submit information to the Agency for background checks. However, 1 (2 percent) of the 43 files did not include a background check for one of the conductor's officers. The Agency did not perform this background check because the Agency had not entered this officer into ACBS.
- Forty-two of the 43 conductors tested were required by the Bingo Enabling Act to obtain training. Six (14 percent) of the 42 conductor files did not include documentation of certain required training. It is important to note, however, that House Bill 1474 later removed the requirement to obtain the training for which documentation was missing.

- For 6 of the 43 conductors tested, Agency policies and procedures require the Agency to document that the charity was in good standing with the Office of the Secretary of State. However, 2 (33 percent) of those 6 files did not include that documentation.
- Forty of the 43 conductors tested were required by Agency policies and procedures to include a playing schedule with their application. However, 3 (8 percent) of those 40 did not have this in the file during this audit. Completed checklists in these three files indicated that the game schedules existed at the time the Agency approved the three licenses.

The Agency ensured compliance with certain requirements in the Bingo Enabling Act, but it did not have a process to monitor compliance with a statutory rent requirement.

Based on an analysis of lessor and conductor license information in ACBS, auditors confirmed that the Agency ensured compliance with certain requirements in the Bingo Enabling Act. Specifically, the Agency ensured compliance with:

- Texas Occupations Code, Section 2001.402 (c), which requires that no more than seven licensed authorized organizations may conduct bingo at the same premises.
- Texas Occupations Code, Section 2001.432 (b), which states that a licensed authorized organization may not be a member of more than one “unit.” Texas Occupations Code, Section 2001.431(1), defines a “unit” as “two or more licensed authorized organizations that conduct bingo at the same location joining together to share revenues, authorized expenses, and inventory related to bingo operations.”

However, the Agency did not have a process to monitor compliance with Texas Occupations Code, Section 2001.406(a), which states:

The rent charged by a licensed commercial lessor to a licensed authorized organization to conduct bingo may not exceed \$600 for each bingo occasion conducted on the lessor’s premises unless the organization subleases the premises to one or more other licensed authorized organizations to conduct bingo, in which event the rent charged by the licensed commercial lessor may not exceed \$600 for each day.

Auditors identified one instance in which a lessor reported charging \$15,200 for rent for one occasion for the quarter ending March 31, 2008. After auditors brought this to the Agency’s attention, the Agency contacted that lessor. According to the Agency, the lessor submitted an amended quarterly report that indicated the lessor charged an appropriate amount for rent.

Auditors identified other evidence indicating that lessors may have charged amounts for rent that exceeded the \$600 maximum. However, auditors could not make a determination about whether the amount charged exceeded the \$600 maximum because the Agency was unable to identify the number of bingo occasions that sublessors conducted.

## Recommendations

The Agency should:

- Consistently maintain documentation demonstrating that it complied with state laws and its policies and procedures for lessors and conductors.
- Implement a monitoring process to ensure compliance with the rent requirement in Texas Occupations Code, Section 2001.406(a).

## Management's Response

*Management concurs with the recommendation and has already implemented corrective actions.*

*The Charitable Bingo Operations Division has recently reviewed and revised its original and renewal processing procedures and corresponding license review checklists to ensure they reflect the most current process. Additionally, a training class was held for all license examiners to re-emphasize the current application review methodology and what supporting documentation must be maintained in the license files. Management plans to conduct routine Quality Assurance Reviews of select license renewal files to ensure that the application reviewed is compliant with the division's most current processing procedures and that all required documentation is maintained.*

*On November 5, 2009, the Charitable Bingo Operations Division requested the Information Resources Department to revise the Quarterly Returns – Exception Report. This report was developed to identify accuracy and compliance anomalies related to the Quarterly Returns. Among the numerous new validations requested to be performed included the validation that rent collected does not exceed an average of \$600 per occasion as specified in Texas Occupations Code, Section 2001.406(a). In addition, the amount of rent reported as collected by the lessor will be compared to the amount of rent reported as paid by the conductor for the quarter to ensure that these figures are consistent. This revised Quarterly Returns – Exception Report was developed, thoroughly tested for accuracy and reliability and implemented on August 26, 2010.*

*Person Responsible for Implementation: Manager, Taxpayer Services  
Department, Charitable Bingo Operations Division.*

*Target Date for Implementation: Completed.*

## *The Agency Should Strengthen Controls Over the Automated Charitable Bingo System*

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Auditors reviewed information technology controls for the Agency's network and ACBS. Overall, the Agency had strong network controls; however, it should make certain improvements to strengthen security over ACBS data. For example, the Agency should:

- Strengthen access controls for ACBS.
- Cease allowing database administrators to share user accounts for ACBS.
- Cease giving users the option to bypass ACBS edit checks during data entry.

Auditors have omitted specific details involving confidential and sensitive information technology issues and communicated those details in writing directly to the Agency's management.

The weaknesses that auditors identified increase the risk of inadvertent or deliberate alteration or deletion of data, which could affect the Agency's ability to ensure the integrity of the data in ACBS.

The Agency should use certain ACBS capabilities.

The Agency is not using certain capabilities of ACBS. For example, return amounts that the Agency estimates in ACBS when licensees do not submit required reports are not identified as estimates in ACBS. It is important that the Agency identifies when licensees do not submit those reports because the Agency uses the information in those reports to determine the fees it will charge licensees to renew licenses.

The Agency should strengthen access controls for ACBS.

Auditors identified the following opportunities to strengthen access controls for ACBS:

- Password complexity requirements for ACBS do not comply with Title 1, Texas Administration Code, Chapter 202. Not adhering to those requirements could make ACBS data vulnerable to unauthorized use. However, this risk is mitigated because the Agency meets industry standards for strong password requirements for its network.
- The Agency does not consistently comply with its policies and procedures to review user access to ACBS for appropriateness. One individual whose employment with the Agency ended in 2006 still had an active ACBS account at the time of this audit.



- A total of three ACBS users have access levels that are more broad than is required for their job responsibilities.

The Agency should cease allowing database administrators to share user accounts for ACBS and ensure that generic user accounts it creates for testing cannot access production data.

Because the Agency has not established unique database administrator user accounts for ACBS, its database administrators share user accounts to perform work in ACBS. Without unique user accounts for each user, there is no accountability for changes to information in ACBS because the Agency cannot identify the particular user who made the changes.

In addition, for testing purposes, the Agency created generic ACBS user accounts; however, those user accounts had access to the production database. Those user accounts were still active during this audit. Similar to the sharing of user accounts discussed above, this issue results in a lack of accountability for changes to information in ACBS because the Agency cannot identify the particular user who made the changes.

The Agency should establish proper segregation of duties in ACBS.

Four Agency programmers have access to production data in ACBS. This access allows them to:

- Modify all data fields in license processing.
- Issue licenses.
- Maintain license status.
- Modify the application received date.
- Add/modify all data fields through data entry.
- Perform all cash functions.
- Perform all audit functions in ACBS.

Granting programmers this type of access increases the risk of unauthorized modification or destruction of data in ACBS. Auditors noted that programmers have made changes to production data in ACBS and have created records in ACBS production data. Programmers also have made changes to ledger data in ACBS production data, and they have created records in the ledger and returns data in ACBS. The ledger data contains all payments and license fees for a licensee. The returns data includes lessor and conductor quarterly returns data.

The Agency should establish audit trails for ACBS.

The Agency has not enabled the audit trail function in ACBS. Audit trails help to maintain individual accountability for each user's actions within a system. Audit trails should be enabled to provide information on which user created a transaction, the date of entry, the type of entry, which fields of information the user entered, and what files the user updated. In the absence of audit trails, if a user improperly modifies data in ACBS, the Agency may not be able to detect the identity of the user or hold the user accountable for his or her actions.

The Agency should cease giving users the option to bypass ACBS edit checks during data entry.

ACBS contains several edit checks for the data entry process. However, users can bypass those edit checks. Bypassing the edit checks is possible because the edit checks primarily consist of questions, such as asking users whether they are sure that what they entered into a certain field is accurate. After users answer that question, ACBS allows users to continue with data entry. Therefore, the design of these controls enables users to bypass the controls.

The weaknesses in ACBS edit checks could lead to errors in ACBS data. The Agency could identify these errors if ACBS produced exception reports. However, ACBS does not produce such reports; therefore, auditors were unable to determine the kinds of errors exception reports would identify. The Agency asserted that it is developing ACBS exception reports due to new requirements made by House Bill 1474 (81st Legislature).

The Agency's Charitable Bingo Operations Division should update its disaster recovery plan.

Although the Agency's Charitable Bingo Operations Division regularly tests its disaster recovery plan, the plan itself is out of date. The Charitable Bingo Operations Division has not updated that plan since September 2005. This represents non-compliance with Title I, Texas Administrative Code, Section 202.24, which requires agencies to test these plans annually and make any updates as a result of the test.

## Recommendations

The Agency should:

- Use the functionality within ACBS to flag amounts that are estimates that the Agency entered to enable the Agency to identify which amounts are actual amounts that a licensee has submitted.
- Strengthen ACBS access controls.

- Conduct regular reviews of user access to ACBS.
- Appropriately limit ACBS access to individuals based on their job responsibilities.
- Assign a unique user ID to each user who accesses the ACBS database.
- Ensure that test accounts cannot access ACBS production data and disable ACBS test accounts after testing is complete.
- Limit programmers' access rights to the ACBS production environment to read-only access.
- Enable audit trails in ACBS.
- Cease giving users the option to bypass ACBS edit checks during data entry.
- Use the full capabilities of ACBS to produce exception reports that would help ensure compliance with the requirements of House Bill 1474 (81st Legislature).
- Ensure that the Charitable Bingo Operations Division updates its disaster recovery plan annually.

#### Management's Response

*Management concurs with the recommendations and in coordination with the Information Resources Division management, provides the following responses to each recommendation:*

***Recommendation: Use the functionality within ACBS to flag amounts that are estimates that the agency entered to enable the Agency to identify which amounts are actual amounts that a licensee has submitted.***

*Response: ACBS currently establishes a return type of "EST" when an estimated return is generated. The Accounting Services Section of the Taxpayer Services Department has implemented procedures to ensure that all organizations file an original return.*

*Responsible for Implementation: Information Resources Department and Charitable Bingo Operations Division Management*

*Target Date for Implementation: Complete*

***Recommendation: Strengthen ACBS controls***

*Response: Password requirements for ACBS will be strengthened to ensure compliance with Title 1, Texas Administrative Code (TAC), Chapter 202*

*Person Responsible for Implementation: Information Resources Department*

*Target Date for Implementation: January 2011*

***Recommendations: Conduct regular reviews of user access to ACBS. Appropriately limit ACBS access to individuals based on their job responsibilities.***

*Response: The agency will review all users' access to ACBS and modify if necessary. Per Agency Directive this review will be performed annually.*

*Person Responsible for Implementation: Information Resources Department and Charitable Bingo Operations Division Management*

*Target Date for Implementation: October 2010 and ongoing*

***Recommendation: Assign a unique user ID to each user who accesses the ACBS database.***

*Response: All persons that access the ACBS database will use a unique user ID and password with the exception of those assigned database schema owner responsibility.*

*Person Responsible for Implementation: Information Resources Department*

*Target Date for Implementation: Complete*

***Recommendation: Ensure that test accounts cannot access ACBS production data and disable ACBS test accounts after testing is complete.***

*Response: All test accounts in ACBS production have been disabled.*

*Person Responsible for Implementation: Information Resources Department*

*Target Date for Implementation: Complete*

***Recommendation: Limit programmers' access rights to the ACBS production environment to read-only access.***

*Response: Programmer access rights will be limited to Read Only.*

*Person Responsible for Implementation: Information Resources Department*

*Target Date for Implementation: October 2010*

***Recommendation: Enable audit trails in ACBS.***

*Response: Agency management will assess the feasibility and cost, and weigh the advantages and disadvantages of enabling audit trails in ACBS. In addition, agency management will also consider resources and capacity needed to enable such functionality. The agency has included a needed redesign and conversion of ACBS as an exceptional item request in the agency's FY2012/2013 Legislative Appropriations Request.*

*Person Responsible for Implementation: Information Resources Division*

*Target Date for Implementation: Ongoing*

***Recommendation: Cease giving users the option to bypass ACBS edit checks during data entry.***

*Response: An exception report was developed to identify any errors in ACBS data entry and implemented on August 26, 2010.*

*Responsible for Implementation: Information Resources Department and Charitable Bingo Operations Division Management*

*Target Date for Implementation: Complete*

***Recommendation: Use the full capabilities of ACBS to produce exception reports that would help ensure compliance with the requirements of House Bill 1474 (81st Legislature).***

*Response: A revised Exception Report was developed, thoroughly tested for accuracy and reliability, and implemented on August 26, 2010.*

*Responsible for Implementation: Information Resources Department*

*Target Date for Implementation: Complete*

***Recommendation: Ensure that the Charitable Bingo Operations Division updates its disaster recovery plan annually.***

*Response: A review of the disaster recovery plan was finalized in July 2010. Annual reviews will be conducted.*

*Responsible for Implementation: Information Resources Department*

*Target Date for Implementation: Complete*

# Appendix

## Objective, Scope, and Methodology

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### Objective

The objective of this audit was to determine whether the Texas Lottery Commission's (Agency) Charitable Bingo Operations Division has controls to verify that proceeds are distributed for charitable purposes in compliance with state laws and Agency rules.

### Scope

The scope of this audit covered:

- Licensing documentation for conductor and lessor licenses the Agency issued from January 1, 2007, through December 31, 2009.
- Audit Services reports completed and charitable bingo complaints closed from January 1, 2008, through December 31, 2009.
- Five bingo halls' financial records, perpetual inventory records, and supporting documentation from October 1, 2009, through December 31, 2009.

### Methodology

The audit methodology included collecting information and documentation; conducting interviews with Agency and bingo hall staff; analyzing and evaluating the results of testing; observing processes; and reviewing policies, procedures, statutes, and the Texas Administrative Code. Auditors also visited five bingo halls to determine whether the bingo halls' financial information complied with statutes and the Texas Administrative Code. In addition, auditors reviewed the Agency's information technology related to the audit objectives.

Information collected and reviewed included the following:

- The Agency's policies, procedures, and checklists related to licensing lessors and conductors.
- The Agency's license application files for lessors and conductors.
- The Agency's Audit Services log and complaint log and files.
- Five bingo halls' perpetual inventory records and financial documents, including daily cash reports, bank statements, quarterly reports,

expenditure reports, pay stubs, invoices, canceled checks, payroll ledgers, and profit and loss statements.

Procedures and tests conducted included the following:

- Interviewed Agency staff.
- Interviewed bingo hall staff.
- Reviewed the Agency's process for receiving and compiling charitable bingo documents.
- Reviewed the Agency's data entry process for the quarterly reports that licensees submit.
- Tested whether the Agency completed background checks before awarding lessor or conductor licenses.
- Determined whether charitable organizations on whose behalf bingo games were held were listed with the U.S. Internal Revenue Service as tax-exempt organizations.
- Compared lessors' and conductors' gross receipts and rentals with their license class.
- Tested whether licensed organizations had only one commercial lessor license.
- Tested whether licensed organizations belonged to only one unit.<sup>1</sup>
- Determine whether cash bond amounts in the Automated Charitable Bingo System (ACBS) agreed with amounts in the Uniform Statewide Accounting System (USAS).
- Determined whether conductor rental payments complied with laws and regulations.
- Analyzed the accuracy of the Agency's data entry of information from quarterly reports that five bingo halls submitted.
- Observed at least one bingo game at each of the five bingo halls visited.
- Tested and analyzed expenditures that five bingo halls made.
- Tested perpetual inventory records at five bingo halls.

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<sup>1</sup> Texas Occupations Code, Section 2001.431(1), defines a "unit" as "two or more licensed authorized organizations that conduct bingo at the same location joining together to share revenues, authorized expenses, and inventory related to bingo operations."

- Tested controls over inventory and cash at five bingo halls.

Criteria used included the following:

- Texas Occupations Code, Chapter 2001 (Bingo Enabling Act).
- Title 16, Texas Administrative Code, Chapter 402.
- The Agency's checklists for lessors and conductors.
- The Agency's lessor and conductor policies and procedures.

### **Project Information**

Audit fieldwork was conducted from March 2010 through July 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

The following members of the State Auditor's staff performed the audit:

- Cesar Saldivar, CGAP, CICA (Project Manager)
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- Rebekah Cartwright
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- Mary Ann Wise, CPA, CFE
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
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The Honorable Rene Oliveira, House Ways and Means Committee

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The Honorable Rick Perry, Governor

### **Texas Lottery Commission**

Members of the Texas Lottery Commission

Ms. Mary Ann Williamson, Chair

Mr. J. Winston Krause

Mr. Phil Sanderson, Director, Charitable Bingo Operations Division



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