



# **Texas Lottery Commission**

## **Internal Audit Services**

AN INTERNAL AUDIT OF:

### **Charitable Bingo Operations Division Implementation of HB 914 Requirements**

**Report No. 20-003**

**September 25, 2020**

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.



**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS



## Audit Report Highlights

### CBOD Implementation of House Bill 914 (HB 914) Requirements

#### **Why Was This Review Conducted?**

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission (TLC) performed this internal audit as part of the approved FY 2020 Annual Internal Audit Plan.

#### **Audit Objectives and Scope**

The objective of this audit was to assess the Charitable Bingo Operations Division's (CBOD) implementation and compliance with applicable sections of HB 914 requirements. The audit period was September 1, 2019 through February 29, 2020.

#### **Audit Focus**

This audit focused on the following areas:

- Processes to implement applicable requirements of HB 914.
- TLC's policies and procedure updates regarding bingo audit processes, license issuance, and mailroom processes.
- Communications provided to organizations, counties and municipalities for guidance regarding the implementation of HB 914.
- Prize fee revenue collection, recording, reconciliation and final allocation payments.

#### **Roles and Responsibilities**

CBOD issues licenses to conductors, lessors, bingo hall workers, manufacturers and distributors; reviews pull-tab art work and electronic card minding devices; collects license fees, prize fee payments, fines and penalties; enforces regulations through various activities including audits; and allocates prize fees collected according to statute. Accounting for the licensing activities, revenues, licensee quarterly reports and prize fees is performed by CBOD staff in the Bingo Operations System Service (BOSS).

TLC's Office of Controller (OC) is responsible for recording and depositing deposits prepared by CBOD and processing prize fee allocation payments based upon information provided by CBOD.

***We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.***

#### **Audit Conclusions**

CBOD has implemented applicable requirements of HB 914. This was done through collective efforts of several agency divisions. We noted that incorrect allocations were made to six jurisdictions because 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)

We also noted that CBOD did not have a documented policy that governs the implementation of regulatory changes and current written procedures were not detailed enough to ensure on-going compliance with regulatory changes. CBOD accepted incomplete prize fee vote resolutions and documented the responses incorrectly on CBOD's website. Furthermore, CBOD did not update the prize fee vote results in BOSS system

*Note: The prize fee allocation payment errors have been researched and corrected as of this report issuance.*

#### **Internal Control Rating**

Some Improvement Needed

#### **What Did We recommend?**

We recommend that CBOD take the following actions to improve internal controls:

- Create a written procedure for implementing regulatory changes.
- Review and update all department procedures to reflect operational changes because of HB 914.
- Ensure 2<sup>nd</sup> review is performed of all recorded data going forward.
- Update the BOSS county/municipality table with actual voting results.
- Update Prize Fee Voting Status on CBOD's website.
- Perform detailed monthly reconciliation of prize fees.

#### **Number of Findings by Risk Rating**

High	Medium	Low	Total
2	1	0	3

## INTRODUCTION



*McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission (TLC) performed an internal audit of the Charitable Bingo Operation's Division's (CBOD) implementation of applicable sections of House Bill 914 (HB 914).*

We performed this audit as part of the approved FY 2020 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

## OBJECTIVE



*The purpose of this audit was to assess CBOD's implementation of, and compliance with, HB 914 as it relates to the processes, notifications and communications with Charitable Bingo stakeholders under the Bingo Enabling Act.*

We designed audit procedures to:

1. Determine if CBOD provided organizations, counties and municipalities with effective guidance regarding the requirements and implications of HB 914.
2. Determine if county and municipality responses were accurately recorded by CBOD on or before January 1, 2020 for the respective votes recorded by November 1, 2019.
3. Determine if prize fees collected from unauthorized bingo activities were properly recorded, reported and allocated. Unauthorized bingo for the purposes of this audit is defined as playing bingo without an active license or temporary license.
4. Determine if processes and written procedures were in place to collect prize fees according to the respective organizations quarterly reports which reflect prize fees paid.
5. Determine if processes and written procedures are in place to verify prize fee payments reported as submitted to the county or municipality.
6. Determine if processes are in place to notify governing bodies, police departments and county sheriff when licenses are issued.
7. Determine if processes and written procedures are in place to grant provisional worker registry to individuals and remove provisional workers from the registry after 30 days if they have not received their permanent worker registry status.
8. Determine if processes are in place to deposit prize fees into the agency's General Fund.



## SCOPE



*This audit period was September 1, 2019 through February 29, 2020. However, some data was provided through FY2020 (YTD). Some test procedures were performed as of the fieldwork date. This work product was at a point in time evaluation that cannot address the inherent dynamic nature of subsequent changes to the process and procedures reviewed.*

## PROCEDURES PERFORMED



*We conducted interviews, business process walkthroughs, reviews of written policies and procedures, recalculations and sample testing of supporting documentation.*

## COMMENDATIONS



*We noted processes and activities undertaken for the implementation of, and compliance with, HB914 we consider commendable and wish to recognize the department for its efforts.*

- ✓ CBOD created a Project Task Plan to document HB 914 implementation project activities and milestones with responsible parties and deadlines.
- ✓ TLC's Office of Controller performs monthly prize fee deposit reconciliations prior to issuing payments.
- ✓ CBOD's Education department staff proactively documented concerns of public and incorporated them into FAQ's.
- ✓ CBOD created a central email address for inquiries related to HB 914.

## CONCLUSION AND INTERNAL CONTROL RATING



*CBOD has implemented applicable requirements of HB 914. This audit identified findings that resulted in an overall internal control rating of **Some Improvement Needed for CBOD processes**. **Exhibit 1** describes the internal control rating.*

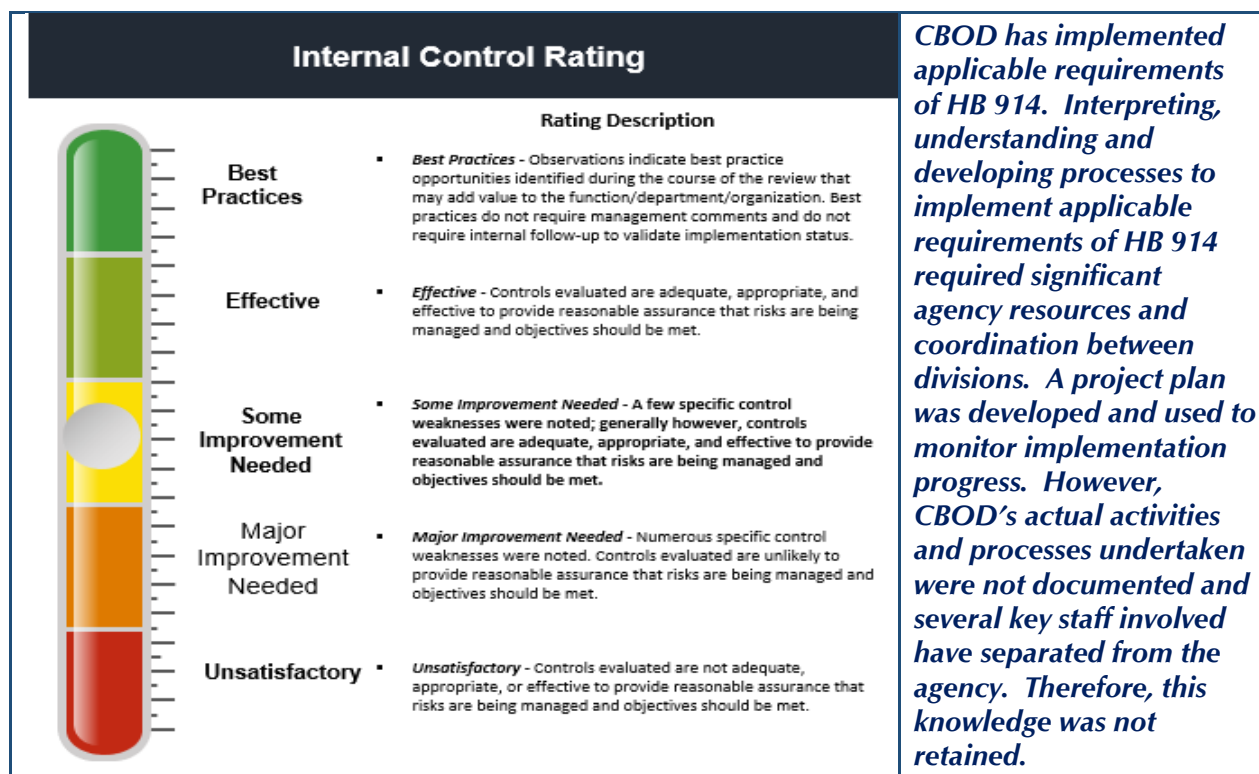


Exhibit 1: Internal control rating description.

## OBSERVATION AND RISK RATING SUMMARY



*Exhibit 2 provides a summary of our audit observations. See the detailed observation section of this report for a discussion of all issues identified, recommendations and management responses.*

Number	Observation	Risk Rating
1	<p>CBOD does not have a documented policy or procedure that governs the implementation of regulatory changes and includes items such as project plans, roles and responsibilities. Additionally, current written procedures are in the process of being reviewed and updated to reflect HB 914 requirements.</p> <p><b>Recommendation:</b></p> <p> CBOD should create a written procedure for implementing regulatory changes. CBOD should also complete the review and update all department procedures to reflect operational changes as a result of HB 914.</p>	
2	<p>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</p>	



Number	Observation	Risk Rating
	<p>of Gregg and Kendall on CBOD’s website. Additionally, CBOD Compliance department staff did not perform a secondary review of prize fee voting outcomes.</p> <p> <b>Recommendation:</b> CBOD should update the BOSS allocation table with actual voting responses and update Prize Fee Voting Status on their website. Furthermore, CBOD should implement processes to ensure a review of recorded data occurs to ensure accuracy and completeness.</p>	
3	<p>CBOD does not perform detailed prize fee reconciliations to validate that the payments received agree to what was recorded in BOSS and also was the correct amount due according to quarterly reports. As a result, there were errors in the final prize fee allocation made to municipalities and counties.</p> <p> <b>Recommendation:</b> Implement a monthly detailed prize fee reconciliation process. CBOD accounting staff should be responsible for performing a detailed reconciliation of prize fees on a monthly basis.</p>	

## Exhibit 2: Observation and Recommendation Summary.

Risk Rating and Suggested Corrective Action Timing Legend:



## APPLICABLE SECTIONS OF HB 914 OVERVIEW



*This section of the report provides an overview of changes that resulted from HB 914.*

During the 86<sup>th</sup> Legislation Session in 2019, House Bill 914 was passed which resulted in the changes in processes and updating county and municipality acknowledgement of continued receipt of prize fees collected from charitable bingo. **Exhibit 3** summarizes key changes mandated by HB 914 that impacted charitable bingo operations and the agency’s Office of Controller.

Change	Prior to HB 914	Implementation of HB 914
HB 914 Section 1  BEA Sec. 2001.305. NOTICE TO LOCAL AUTHORITIES	<p>License holder (organization) provides copy of license to:</p> <ul style="list-style-type: none"> <li>• police department of municipality; or</li> <li>• sheriff of the county</li> </ul> <p>no later than the 10<sup>th</sup> day after the date the license is issued.</p>	<p>Charitable Bingo Licensing department provides copy of license to:</p> <ul style="list-style-type: none"> <li>• police department of municipality; or</li> <li>• sheriff of the county</li> </ul> <p>no later than the 10<sup>th</sup> day after the date the license is issued.</p>



Change	Prior to HB 914	Implementation of HB 914
HB 914 Section 2  BEA Sec. 2001.313. REGISTRY OF APPROVED BINGO WORKERS.	Provisional workers may not exceed 14 days if the individual is a resident of the state.	Provisional workers may not exceed 30 days if the individual is a resident of the state.
HB 914 Section 3  BEA Sec. 2001.419. BINGO OCCASIONS.	Bingo paper for a bingo occasion may be sold before the bingo occasion begins.	Bingo cards, pull-tab bingo tickets, and the use of card-minding devices for a bingo occasion may be sold beginning one hour before the bingo occasion and ending at the conclusion of the bingo occasion.  If the organization conducts consecutive bingo occasions for one day, the organization may report all of the pull-tab bingo ticket sales as sales for the final occasion.
HB 914 Section 4  BEA Sec. 2001.451. ORGANIZATION BINGO ACCOUNTS.	A deposit must be made not later than the second business day after the day the bingo occasion receipts were obtained.	A deposit must be made not later than the third business day after the day the bingo occasion receipts were obtained.
HB 914 Section 5  BEA Sec. 2001.502. PRIZE FEE.	A county or municipality who previously voted to receive prize fees within their jurisdiction would receive quarterly prize fee allocations disbursed from CBOD, as a pass-through.	Governing bodies of a county or municipality who was entitled to receive a portion of a prize fee as of January 1, 2019 must have a majority vote to continue receiving prize fees no later than November 1, 2019.
HB 914 Section 5  BEA Sec. 2001.502. PRIZE FEE.	All prize fees collected were submitted to the commission and were then allocated to the city and/or municipality eligible to receive prize fees.	Each quarter, a licensed authorized organization or unit that collects a prize fee under Subsection (a) for a bingo game conducted in a county or municipality that was entitled to receive a portion of a bingo prize fee as of January 1, 2019, shall remit 50 percent of the amount collected as the prize fee to the commission and (1) if the county or municipality in which the bingo game is conducted voted before November 1, 2019, to impose the prize fee, remit 50



Change	Prior to HB 914	Implementation of HB 914
		<p>percent of the amount collected as the prize fee to:</p> <p>(A) the county that voted to impose the fee by that date, provided the location at which the bingo game is conducted is not within the boundaries of a municipality that voted to impose the prize fee by that date;</p> <p>(B) the municipality that voted to impose the fee by that date, provided the county in which the bingo game is conducted did not vote to impose the fee by that date; or</p> <p>(C) in equal shares, the county and the municipality, provided each voted to impose the fee before that date; or</p> <p>(2) if neither the county or municipality in which the bingo game is conducted voted before November 1, 2019, to impose the prize fee, deposit the remainder of the amount collected as the prize fee in the general charitable fund of the organization or on a pro rata basis to the general funds of the organizations comprising the unit, as applicable, to be used for the charitable purposes of the organization or organizations.</p>
<p>HB 914 Section 5</p> <p>BEA Sec. 2001.504. PAYMENT AND REPORTING OF FEE.</p>	<p>Prize fees are paid to the commission for a license holder or person conducting bingo without a license.</p>	<p>Prize fees are paid to the commission and county or municipality, as applicable, for a license holder or person conducting bingo without a license.</p>
<p>HB 914 Section 6</p> <p>BEA Sec. 2001.504. PAYMENT AND REPORTING OF FEE.</p>	<p>Organizations remit all prize fees to the commission on a quarterly basis.</p>	<p>A fee on prizes authorized or imposed under this subchapter is due and is payable by the license holder or a person conducting bingo without a license to the commission and county or municipality, as applicable, quarterly on or before the 25th day of the month succeeding each calendar quarter.</p>





Change	Prior to HB 914	Implementation of HB 914
HB 914 Section 8  BEA Sec. 2001.507. COLLECTION AND DEPOSIT OF PRIZE FEE.	The commission deposits prize fee revenue to special account in the general fund. Charitable Bingo administrative fees are withheld from county and municipality prize fee allocations.	The commission deposits prize fee revenue to the credit of the general fund.
HB 914 Section 11	N/A	Texas Lottery Commission was required to notify the governing body of a county or municipality that was entitled to receive a portion of the prize fee collected by October 1, 2019 of the voting requirement date of November 1, 2019.

**Exhibit 3: HB 914 Changes Mandated by the Texas Legislature**

## FINANCIAL IMPLICATIONS OF HB914

HB 914 required counties and municipalities to notify the Texas Lottery Commission of their governing body's vote to continue or discontinue receiving charitable bingo prize fees. While the vast majority of counties and municipalities provided a notarized resolution attesting to the vote and desire to continue receiving prize fees we noted that three of the counties that were previously receiving prize fees voted to discontinue receiving the prize fees and seven did not provide a response to the agency and therefore they are no longer eligible to receive the prize fees. These 10 entities received a total of \$257,738.61 in prize fees during 2019. Harris county received \$252,971.68 of this amount. **Exhibit 4** shows the counties who will no longer receive prize fees from charitable bingo organizations. We also noted municipalities that received prize fee allocations who will no longer be eligible as of January 1, 2020 received \$1,799.90. We did not include these on the map.

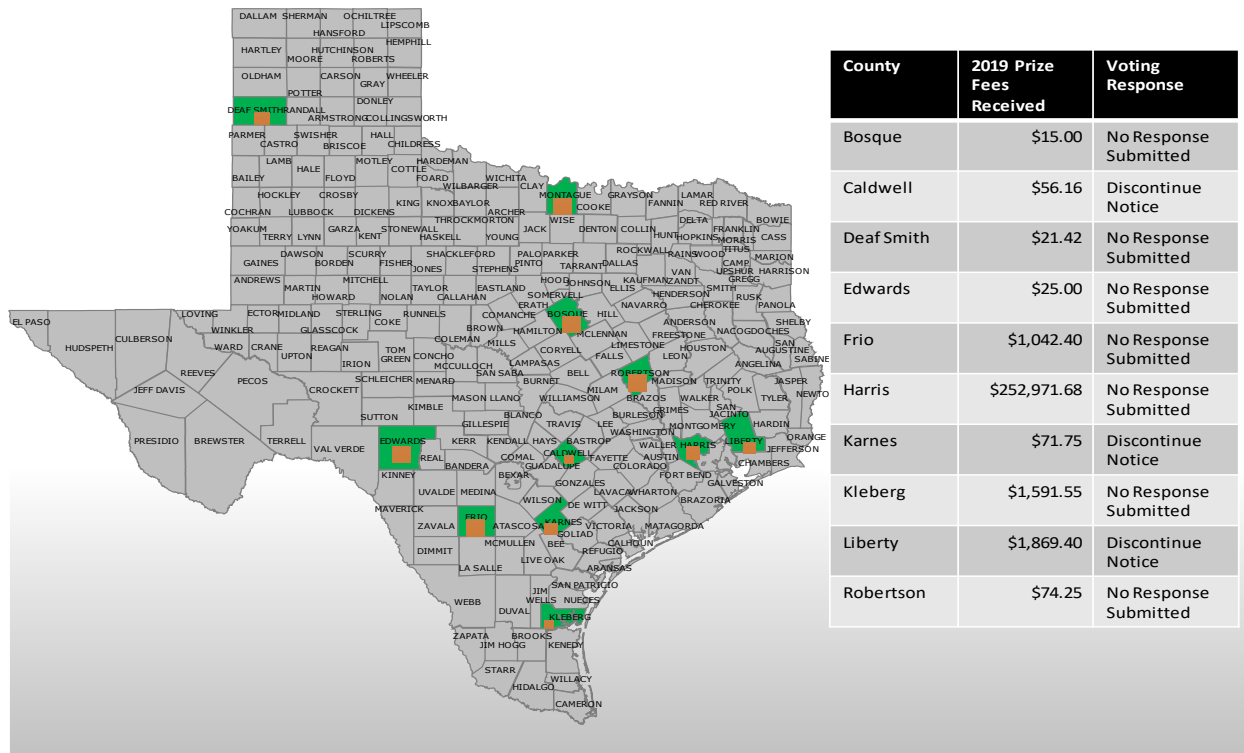


Exhibit 4: Texas Counties No Longer Eligible to Receive Charitable Bingo Prize Fees

## DETAILED OPPORTUNITIES AND RECOMMENDATIONS



*This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.*









### Opportunity #1: Written Policies and Procedures (High Risk)

CBOD does not have a documented policy or procedure that governs the implementation of regulatory changes and includes items such as project plans, roles and responsibilities. Additionally, current written procedures are in the process of being reviewed and updated to reflect HB 914 requirements.

During the 86<sup>th</sup> Legislature proceedings, HB 914 was passed which brought about significant changes for Texas charitable bingo stakeholders (such as TLC and CBOD staff, bingo conductors, charitable bingo organizations, as well as Texas counties and municipalities).

Internal audit was provided CBOD's audit and licensing procedures for review. We noted that the procedures had not been updated to reflect regulatory changes as a result of HB 914. **Exhibit 5** provides a comparative summary of the HB 914 and applicable CBOD written procedure.



Impacted Area – HB 914 Section Title	Related Procedure	Implementation of HB 914	Is Procedure Documented?	Is Requirement Currently Practiced?
<b>Licensing</b> <b>HB 914 Section 1</b> Issuing Licenses to Governing Body	Proofing and Mailing Charitable Bingo Licenses 10/2017	Charitable Bingo Licensing department provides copy of license to: <ul style="list-style-type: none"> <li>• police department of municipality; or</li> <li>• sheriff of the county</li> </ul> no later than the 10 <sup>th</sup> day after the date the license is issued.	 Procedure does not state the timeframe which the letter is to be sent to the governing body.	
<b>Licensing</b> <b>HB 914 Section 2</b> Provisional Worker Registry	Data Entry and Processing of Worker Registry Applications 10/2017	Provisional workers may not exceed 30 days if the individual is a resident of the state.	 Procedure does not state the length of time provisional licenses are active.	
<b>Audit</b> <b>HB 914 Section 3</b> Bingo Occasion Selling Times	CCR Fieldwork Program 4/2020	Bingo cards, pull-tab bingo tickets, and the use of card-minding devices for a bingo occasion may be sold beginning one hour before the bingo occasion and ending at the conclusion of the bingo occasion.  If the organization conducts consecutive bingo occasions for one day, the organization may report all of the pull-tab bingo ticket sales as sales for the final occasion.	 Procedure is not detailed enough and does not state the timeframe of allowable selling times.	
<b>Audit</b> <b>HB 914 Section 4</b> Occasion Deposits	CCR Fieldwork Program 3/2020	A deposit must be made not later than the third business day		



Impacted Area – HB 914 Section Title	Related Procedure	Implementation of HB 914	Is Procedure Documented?	Is Requirement Currently Practiced?
		after the day the bingo occasion receipts were obtained.		
<b>Administration</b> <b>HB 914 Section 5</b> Prize Fee Allocations <i>Beginning January 1, 2020</i>	Procedure Not Provided	Organizations remit state portion of prize fees to the commission and applicable county and/or municipality on a quarterly basis.		
<b>Compliance</b> <b>HB 914 Section 6</b> Prize Fees for Illegal Bingo	Procedure Not Provided	Prize fees are paid to the commission and county or municipality, as applicable, for a license holder or person conducting bingo without a license.		
<b>Administration</b> <b>HB 914 Section 8</b> Prize Fee – General Fund	Procedure Not Provided	The commission deposits prize fee revenue in the general fund. Charitable Bingo administrative fees are paid from the commission’s general fund.		
<b>Accounting</b> <b>HB 914 Section 10</b> Conductor License Fees	Procedure Not Provided	License fees for conductors remain repealed.		
<b>Compliance</b> <b>HB 914 Section 11</b> County/Municipality Voting	Procedure Not Provided	Governing bodies of a county or municipality who was entitled to receive a portion of a prize fee as of January 1, 2019 must have a majority vote to continue receiving prize fees no later than November 1, 2019.  Texas Lottery Commission was required to notify the governing body of a county or municipality		



Impacted Area – HB 914 Section Title	Related Procedure	Implementation of HB 914	Is Procedure Documented?	Is Requirement Currently Practiced?
		that was entitled to receive a portion of the prize fee collected by October 1, 2019 of the voting requirement date of November 1, 2019.		

#### Exhibit 5: Comparison of HB 914 Requirements and CBOD Internal Policies

##### Legend:



Procedures are effective, and procedures comply with HB914's updated requirement; no issues noted.



Procedures are not in compliance with HB914's updated requirements; issues noted, and Internal Audit recommends updating the procedure and/or practice.

In our effort to identify CBOD's processes in place to identify instances where bingo was played without an active license so that prize fees are reported and collected, we noted that the Accounting department does not coordinate with the Compliance department if they note these instances through quarterly reporting. It is important to note that CBOD had no identified instances of organizations playing without an active license during our audit scope period.

Lack of a documenting procedures and the methodology performed to implement new legislation creates the following risks:

- ✓ Inability to provide evidence of how the change was implemented and how the process was performed.
- ✓ Potential loss of knowledge on how to perform the process in the future.
- ✓ Potentially performing processes in an inconsistent manner that may result in different results.

#### **Audit Recommendation #1**

CBOD should create a written procedure for implementing regulatory changes. This procedure should include, but not be limited to:

- ✓ Establishing an internal implementation team.
- ✓ Listing which TLC divisions should be included on the implementation team.
- ✓ Creating an implementation project plan with roles, responsibilities and milestones.
- ✓ Identifying business process changes required.
- ✓ Identifying information system changes required.
- ✓ Reviewing Texas Administrative Codes (TACs) to determine if any new TACs need to be created or current TACs need to be updated.
- ✓ Reviewing and updating internal written policies to reflect process and regulatory changes.
- ✓ Documenting actions taken to implement the regulatory change(s).





- ✓ Saving project plans and action document to a specified location on the agency's network for historical purposes.

CBOD should also complete their review and update all department procedures to reflect operational changes as a result of HB 914.

CBOD should also implement a procedures and process where the Accounting department provides the Compliance department with information when quarterly report or mailroom processing identifies organizations playing without an active or temporary license. It would then be up to the Compliance department to apply established policies and protocols to determine if further actions are needed and if the instance should be referred to the agency's Enforcement Division.

### ***Management Response Recommendation #1***

CBOD Management concurs with the recommendations. Actions and steps are being taken to address implementing the recommendations. The Bingo Director is responsible for assigning staff to review and update all division procedures. In some cases, a small committee of staff is involved in the review process. A detailed tracking spreadsheet is used to monitor the status of each procedure throughout the review process to insure timely completion. The Bingo Director is primarily responsible for final review and submission of the procedures to the agency Procedure Tracking System (PTS) for approval and posting.

Expected Completion Date: January 31, 2021.

### ***Opportunity #2: County and Municipality Prize Fee Vote Recording Errors (High Risk)***

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.

HB 914 required CBOD to notify the governing body of a county or municipality that was entitled to receive a portion of the charitable bingo prize fees collected by October 1, 2019 of their requirement to vote on continuation of receiving these prize fees by November 1, 2019. We noted that CBOD met this requirement.

CBOD created a centralized email address to receive vote notifications electronically. We noted that a designated staff member was then responsible for downloading the responses and recording the votes into a tracking spreadsheet. This spreadsheet was then used to update CBOD's website. We noted that a review of the spreadsheet and what was subsequently posted to CBOD's website was not completed to ensure accuracy and complexness.

We also noted that the Bingo Operating Service System (BOSS) County/Municipality Allocation table was not updated for prize fee vote results. Although the Allocation table was disabled to comply with HB 914 requirements it should still be updated to reflect actual vote results in case there is a need to enable the table in the future. Of the municipalities and counties listed in BOSS as previously eligible for receiving prize fees we noted that:

- 47 municipalities did not submit a prize fee vote response.
- 2 municipalities responded that they were discontinuing receiving the prize fees.
- 13 counties did not submit prize fee vote response.
- 3 counties responded that they were discontinuing receiving the prize fees.

**Exhibit 6** reflects the BOSS allocation table which neither city nor county tables have been updated to reflect HB914 allocation vote status and corresponding status date.

[illegible]

**Exhibit 6: BOSS Prize Fee Allocation Table as of May 19, 2020**

CBOD also accepted incomplete prize fee vote resolutions and incorrectly listed the vote status of City of Tuscola, County of Gregg and Kendall listed as ‘Yes’ on Charitable Bingo website which is shown in **Exhibit 7**.

County Voting Results as of December 18, 2019

Bastrop	Yes
Bell	Yes
Bexar	Yes
Blanco	Yes
Bosque	NR
Bowie	Yes
Brown	Yes
Burnet	Yes
Caldwell	No
Cameron	Yes
Castro	Yes
Clay	NR
Coleman	NR
Collin	Y(1)
Comal	Yes
Comanche	Yes
Dallas	Yes
Deaf Smith	NR
Denton	Yes
Eastland	Yes
Ector	Yes
Edwards	NR
El Paso	Yes
Ellis	Yes
Erath	Y(1)
Freestone	Yes
Frio	NR
Galveston	Yes
Gillespie	Yes
Goliad	Yes
Gray	Yes
Gregg	Yes
Guadalupe	Yes
Harris	NR
Hidalgo	Yes
Irion	NR
Jackson	Yes
Karnes	No
Kaufman	Yes
Kendall	Yes

Kinney	Yes
Kleberg	NR
Lamb	Y(1)
Liberty	N(2)
Lubbock	Yes
Lynn	Yes
McLennan	Yes
Midland	Yes
Mills	Y(1)
Montague	NR
Montgomery	Yes
Nolan	Yes
Nueces	Yes
Orange	Yes
Parker	Yes
Pecos	Yes
Polk	Y(1)
Potter	Yes
Randall	NR
Reeves	Yes
Robertson	NR
San Patricio	Yes
Smith	Yes
Stephens	Yes
Tarrant	Yes
Taylor	Yes
Terry	Yes
Tom Green	Yes
Travis	Yes
Upshur	Yes
Val Verde	Yes
Van Zandt	Y(1)
Victoria	Yes
Waller	Yes
Webb	Yes
Wichita	Y(1)
Wilbarger	NR
Willacy	Yes
Williamson	Yes
Winkler	Yes

Municipality Voting Results as of December 18, 2019

Tuscola	Yes
Tyler	Yes
Tyler	Yes
Uhlard	Yes
Universal City	Y(2)
Uvalde	Yes
Victoria	Yes
Waco	Yes

Watauga	Yes
Westlaco	Yes
West	Yes
West Lake Hills	NR
West Tawakoni	Y(2)
White Settlement	Yes
Wichita Falls	Yes

**Exhibit 7: County and Municipality Voting Results per CBOD Website**

Source:

[https://www.txbingo.org/export/sites/bingo/Documents/County\\_and\\_Municipality\\_HB\\_914\\_Vote\\_Status\\_as\\_of\\_December\\_18\\_2019.pdf](https://www.txbingo.org/export/sites/bingo/Documents/County_and_Municipality_HB_914_Vote_Status_as_of_December_18_2019.pdf)

Failure to accurately update the prize fee voting status on CBOD's website and in BOSS creates the following risks:

- ✓ Organizations may utilize the inaccurate prize fee allocation status to pay prize fees to a county or municipality that is not entitled to receive allocations.
- ✓ BOSS does not reflect up-to-date, accurate county and municipality prize fee eligibility status.

**Audit Recommendation #2**

CBOD should update the BOSS county/municipality allocation table with actual voting responses and update Prize Fee Voting Status on CBOD's website. Furthermore, CBOD should implement processes to ensure a review of recorded data occurs to ensure accuracy and compliance.

**Management Response Recommendation #2**



CBOD management concurs with the recommendation. Compliance Department staff and the Bingo Director will be responsible for the research, verification and entry of the voting results in Bingo Operations Service System (BOSS), County/Municipal allocation table. An assigned member of the Audit staff will verify the data entry of the voting status into the County/Municipality allocation table. Once reviewed and verified the list will be posted on the TXBINGO.ORG website.

Expected Completion Date: February 1, 2021.

### ***Opportunity #3: Prize Fee Revenue Collection, Recording and Reconciliations (Medium Risk)***

CBOD does not perform detailed prize fee reconciliations to validate that the payments received agree to what was recorded in BOSS and also was the correct amount due according to quarterly reports. Incorrect allocations were made to six jurisdictions because 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)

We also noted that the monthly close process was not performed by CBOD accounting staff for October 2019 through December 2019.

Charitable bingo organizations submit quarterly reports to CBOD that include information on the amount of prize fees collected during the respective period. They also submit payment to CBOD for the reported prize fees collected. Additionally, charitable bingo organizations are allowed to submit amended quarterly reports that could include corrected prize fee information. When amended quarterly reports are submitted that change the prize fee collected information, adjustments to prior prize fee allocation payments must be made.

Prize fees collected are deposited into the state's treasury and recorded by agency staff in BOSS, MIP (the agency's financial system) and USAS (the state's financial system).

CBOD staff provide the agency's Office of Controller (OC) with a report generated from BOSS that lists the prize fee amounts to allocate to each municipality and county. However, CBOD does not have processes in place to ensure that the report data is reconciled prior to submitting it to OC.

OC reviews the prize fee allocation report and reconciles it to payment and prior allocation payments information in the MIP financial system prior to issuing a payment to the municipality or county.

We reconciled the final prize fee allocations by comparing amounts reported on the submitted quarterly reports for the period to payments submitted by organizations and payments made to cities and counties by the agency. Based upon the information we were provided, we noted that incorrect prize fee allocation payments were paid to Laredo (overpaid \$85), Longview (overpaid \$71.40) and San Antonio (underpaid \$174.41). When our information was provided to the agency, their research shows these differences and more. These are discussed in the corrective actions taken by the agency.



CBOD accounting staff not performing detailed prize fee reconciliations of prize fee data contained in all information systems creates the following risks:

- ✓ Inaccurate payments sent to county or municipality while bottom line totals reconcile.
- ✓ The three information system that contain prize fee payment data, BOSS, MIP and USAS, may not agree to each other.

### **Corrective Actions Taken by the Agency**

Once the prize fee allocation errors were communicated to CBOD and OC, the agency's Controller took the lead on working with CBOD staff and the agency's Information Resources (IR) team to determine the root cause for the errors. It was determined that the errors stemmed from CBOD staff accepting five quarterly reports that were submitted on the wrong form after December 31, 2019 and incorrectly posting refunds to the allocation account. This then caused a series of "data fix" requests to IR for these payments. Due to changes made in BOSS to comply with HB 914, the data fixes did not process as normal and CBOD did not have a process in place to verify the data fix posted correctly.

IR's research into this matter identified additional errors. **Exhibit 8** provides an adjustment summary table provided by IR.

ISR	Hereford	Jourdanton	Laredo	Longview	San Antonio	Deaf Smith County	Atascosa County	Webb County	Gregg County	Bexar County	State
33254	\$ -				\$ 18.00	\$ -					\$ (18.00)
33257		\$ -			\$ 0.01		\$ -				\$ (0.01)
33150			\$(21.25)		\$ 85.00			\$(21.25)			\$ (42.50)
33259				\$ (17.85)	\$ 71.40				\$(17.85)		\$ (35.70)
33145					\$2,489.28					\$(829.76)	\$ (1,659.52)
33253					\$ 16.50					\$ (5.50)	\$ (11.00)
33261					\$ 0.01					\$ -	\$ (0.01)
<b>Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$(21.25)</b>	<b>\$ (17.85)</b>	<b>\$2,680.20</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$(21.25)</b>	<b>\$(17.85)</b>	<b>\$(835.26)</b>	<b>\$ (1,766.74)</b>

**Exhibit 8: Allocation Errors Identified by IR's Research**

The corrections have now been made to BOSS and OC has issued notices to the impacted municipalities of the payment errors. A reimbursement request letter was sent to the three municipalities that received over payments and a payment was issued to the municipality that was underpaid. OC also recorded the appropriate adjustments in MIP and USAS.

### **Audit Recommendation #3**

Implement a monthly detailed prize fee reconciliation process. CBOD accounting staff should be responsible for performing a detailed reconciliation of prize fees on a monthly basis. This reconciliation should include:

1. Information reported on quarterly reports to what is recorded in BOSS.
2. Information reported on amended quarterly reports to what is recorded in BOSS.
3. Deposit information reported in BOSS ledgers to MIP. CBOD accounting staff should request prize fee deposit reports each month from OC.





4. Provide OC with a copy of the completed reconciliation along with the supporting documents and notate any corrections needed.

### ***Management Response Recommendation #3***

CBOD Management concurs with the recommendation. The Charitable Bingo Director and the Bingo Accounting Services Coordinator will implement a detailed prize fee reconciliation process that includes reconciling the recording of information reported on quarterly reports as well as amended quarterly reports to what is recorded in BOSS. The reconciliation will also include deposit information recorded in the BOSS ledgers to MIP. CBOD will request prize fee deposit reports monthly from the OC. Finally, once the reconciliation is completed, a copy will be provided to the OC along with the supporting documentation for any corrections noted.

Expected Completion Date: December 31, 2020.



## CBOD HB 914 IMPLEMENTATION BUSINESS OBJECTIVES AND RISKS



*This section of the report provides a summary of applicable business objectives, risks and controls related to CBOD's processes for implementing regulatory changes, including applicable sections of HB 914.*

### 1 BUSINESS OBJECTIVE: *Charitable Bingo Policy and Procedure Updates*

<b>Business Objective</b>	To ensure that CBOD has documented processes for updating regulatory changes. These procedures include documenting how the respective regulations were implemented and updating or creating applicable internal policies, written procedures and Texas Administrative Code.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➔ CBOD may not have established processes to ensure that regulatory changes are implemented in a consistent, effective and efficient manner.</li> <li>➔ CBOD may not document how regulatory changes were implemented. For HB 914 it would have included procedures associated with notifying impacted entities of the changes, recording voting results, updating information systems, updating processes and forms and performing prize fee reconciliations.</li> <li>➔ CBOD may not be in compliance with regulatory requirements, including those changed in HB 914.</li> </ul>
<b>Management Controls in Place</b>	➔ CBOD developed a Project Task Plan which identifies individuals and departments responsible for specific tasks, task priority and deadlines.
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➔ Reviewed written procedures that were provided from CBOD Licensing and CBOD Audit.</li> <li>➔ Reviewed HB 914 Project Task Plan.</li> <li>➔ Interviewed key process owners.</li> </ul>
<b>Control Assessment</b>	Some Improvement Needed
<b>Recommended Actions</b>	CBOD should review and update all department procedures and create a procedure for implementing regulatory changes. <i>See opportunity #1.</i>

### 2 BUSINESS OBJECTIVE: *Charitable Bingo Communications to Governing Bodies*

<b>Business Objective</b>	To ensure that CBOD provided organizations, counties and municipalities consistent and effective guidance regarding the requirements and implementation of HB 914.
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<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ CBOD may not be in compliance with Section 11 of HB 914 which required CBOD to notify municipalities and counties of voting requirements by October 1, 2019.</li> <li>➤ CBOD may have misinformed stakeholders of the HB 914's interpretation.</li> </ul>
<b>Management Controls in Place</b>	<ul style="list-style-type: none"> <li>➤ TLC's Legal Services Division reviewed communications drafted by CBOD.</li> <li>➤ CBOD held bi-weekly meetings with all persons involved in processes to implement HB 914.</li> <li>➤ CBOD set deadlines in the HB 914 Project Task Plan for communications to ensure compliance with the regulatory changes.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Interviewed key process owners.</li> <li>➤ Reviewed HB914 Project Task Plan.</li> <li>➤ Reviewed director's messages, letters and web content of communications regarding voting requirements and general guidance.</li> <li>➤ Reviewed applicable Outgoing Mail Log.</li> </ul>
<b>Control Assessment</b>	Internal Controls are Effective
<b>Recommended Actions</b>	None

### 3 BUSINESS OBJECTIVE: *Charitable Bingo Prize Fee Collections, Recording and Reconciliations*

<b>Business Objective</b>	To ensure that prize fees collected from organizations and reflected on quarterly reports and accurately recorded in BOSS and reconciled.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ Charitable bingo prize fees received could be inaccurately recorded into BOSS resulting in overstated and understated revenues.</li> <li>➤ Instances of playing bingo without an active license may not result in collecting prize fees. The prize fees may not be submitted to CBOD quarterly on or before the 25<sup>th</sup> day of the month succeeding each calendar quarter as required by statute.</li> </ul>
<b>Management Controls in Place</b>	<ul style="list-style-type: none"> <li>➤ Prize fees received are verified by CBOD accounting staff against quarterly reports received for the year as part of the Remittance Room procedure.</li> <li>➤ TLC's Office of Controller reconciles prize fees deposited.</li> <li>➤ CBOD Accounting staff mails letters to organizations when prize fees received are less than prize fees due.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Performed audit testing on prize fees paid.</li> <li>➤ Interviewed key process owners.</li> <li>➤ Reviewed prize fee reconciliations.</li> <li>➤ Reviewed CAMP report for instances of playing bingo without an active license.</li> </ul>



### 3 BUSINESS OBJECTIVE: *Charitable Bingo Prize Fee Collections, Recording and Reconciliations*

<b>Control Assessment</b>	Some Improvement Needed We noted that internal controls over prize fee collections and recording are effective. However, the CBOD does not perform detailed reconciliations of prize fees collected, recorded and deposited.
<b>Recommended Actions</b>	Bingo accounting should perform a detailed reconciliation of prize fees on a monthly basis. See opportunity #3.

### 4 BUSINESS OBJECTIVE: *Charitable Bingo Prize Fee Allocations Paid to Municipalities and Counties*

<b>Business Objective</b>	To ensure that processes are in place to verify prize fee payments reported as submitted to the county and/or municipality are accurate and complete.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ Municipality and county prize fee payments may be paid to ineligible entities.</li> <li>➤ Inaccurate payments may be paid to municipalities and counties causing overpayments or underpayments.</li> <li>➤ Payments may not be reviewed after processing.</li> </ul>
<b>Management Controls in Place</b>	➤ CBOD and OC staff review prize fee report prior to processing county and municipality payments.
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Interviewed key process owners.</li> <li>➤ Analyzed and tested final prize fees allocated to municipalities and counties.</li> </ul>
<b>Control Assessment</b>	Internal controls are effective.
<b>Recommended Actions</b>	None

### 5 BUSINESS OBJECTIVE: *County and Municipality Voting Responses & BOSS Update*

<b>Business Objective</b>	To ensure that county and municipality responses were accurately recorded by CBOD on or before January 1, 2020 for the respective voting results occurring by November 1, 2019.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ CBOD may not have documented the method of which voting responses were to be remitted to the agency.</li> <li>➤ Municipality and county responses to opt in or out of receiving proceeds from prize fees may not be recorded accurately resulting in overstated or understated revenue for the county and municipality.</li> </ul>



	<ul style="list-style-type: none"><li>➤ CBOD may not have updated the county/municipality voting status' in BOSS.</li><li>➤ CBOD may not accurately report voting result information to stakeholders.</li></ul>
<b>Management Controls in Place</b>	<ul style="list-style-type: none"><li>➤ CBOD created a document for county and municipality voting responses which is referred to as a "Resolution" to acknowledge continued receipt of prize fees.</li><li>➤ CBOD submitted an ISR to create a central email address for county and municipality prize fee voting responses.</li><li>➤ CBOD staff created a voting response tracking sheet to record information received.</li></ul>
<b>Control Tests</b>	<ul style="list-style-type: none"><li>➤ Interviewed key process owners.</li><li>➤ Reviewed and reconciled municipality and county voting responses recorded internally, and Prize Fee Voting Status posted on Charitable Bingo website.</li></ul>
<b>Control Assessment</b>	Internal controls are ineffective. due to lack of consistency with attesting to voting received and BOSS has not been updated to reflect county and municipality votes, including lack of voting responses.
<b>Recommended Actions</b>	Update BOSS allocation table with voting responses. Update Prize Fee Voting Status on CBOD's website. <i>See opportunity #2.</i>