



TEXAS LOTTERY COMMISSION INTERNAL AUDIT

ANNUAL INTERNAL AUDIT REPORT FY 2018



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



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October 3, 2018

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the fiscal year 2018 Annual Internal Audit Report for the Texas Lottery Commission (TLC). This annual internal audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). TLC engaged McConnell & Jones LLP (MJ) on September 1, 2017 to provide internal audit services to the TLC in accordance with The Texas Internal Auditing Act, pursuant to the Request for Proposals (RFP) issued January 30, 2017. MJ submits this fiscal year 2018 Annual Internal Audit Report on behalf of the TLC Commissioners.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for their governing board. The purpose of the annual internal audit report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual internal audit report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the FY 2018 Annual Internal Audit Report is due November 1, 2018.

Please contact Wayne McConnell at 713.968.1600 or Commissioner J. Winston Krause at 512.477.6707 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA
Partner



I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, McConnell & Jones LLP (MJ) will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the Texas Lottery Commission (TLC) for posting to their website.

II. FISCAL YEAR 2018 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2018 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the TLC commissioners on October 5, 2017. The chart below reflects the status of the approved FY 2018 Internal Audit Plan.

FY 2018 Internal Audit Plan Status as of August 31, 2018

Task #	Description	Report Number	Report Date	Report Title	Audit Status
1	CBOD Licensee Education Program	18-002	March 22, 2018	Charitable Bingo Operations Division Education Program	Completed
2	Personal Identifiable Information – (Agency-Wide including CBOD)	18-001	August 31, 2018	Personal Identifiable Information Program	Completed
3	Social Responsibility	18-003	August 31, 2018	Social Responsibility Program	Completed
4	Drawing Equipment Maintenance Process and Controls	18-004	August 22, 2018	Drawing Equipment Maintenance Processes	Completed
5	Unclaimed Prize Processes	18-007	May 30, 2018	Unclaimed Prize Processes	Completed
6	Instant Game Closing Process	18-006	August 22, 2018	Scratch Ticket Game Closing Processes	Completed
7	Mailroom Processes	18-005	August 31, 2018	Mailroom Processes	Completed
8	Follow-Up On Prior Audit Findings	N/A	N/A	N/A	On-Going



Task #	Description	Report Number	Report Date	Report Title	Audit Status
9	Monitoring of Fraud/Complaint Hotlines Lines	N/A	N/A	N/A	On-Going
10	External Audit / Review Assistance	N/A	N/A	N/A	On-Going
11	Update Risk Assessment & Develop FY 2019 Audit Plan	N/A	N/A	N/A	Completed
12	Annual Audit Report	N/A	N/A	N/A	Completed
13	Audit Communications, Committee Meetings, Project Management	N/A	N/A	N/A	On-Going
14	Charitable Bingo Operations Division Follow-up, Business Process Reviews and Internal Control Review	N/A	N/A	N/A	On-Going

Deviation from Fiscal Year 2018 Internal Audit Plan

Internal audit revised the approved FY 2018 Annual Internal Audit Plan to include providing follow-up on prior audits, business process reviews and internal control review assistance to the agency’s Charitable Bingo Operations Division activities. The modified FY 2018 Annual Internal Audit Plan was approved by TLC’s Commissioners on June 21, 2018.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal Audit provided consultative assistance to Charitable Bingo Operations Division (CBOD) management to review their education program’s operations. We reviewed the processes involved with planning, designing and executing the CBOD education program. Our audit objectives were to assess and improve CBOD’s processes and in place and tools available to determine:

- ✓ Education Needs
- ✓ Education Program Topics
- ✓ Education Resources Available to Stakeholders
- ✓ Education Content Delivery Methods
- ✓ Education Requirements
- ✓ Education Program Monitoring Process
- ✓ Education Program Metrics

Our recommendations are included in report number 17-002 Charitable Bingo Operations Division Education Program issued on March 22, 2018.



IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987, and is subject to the AICPA’s peer review process every three years. Our commitment to quality is underscored by the fact that we have consistently received an unqualified opinion in our external peer review of our accounting and auditing practice by the AICPA in the most recent four peer reviews. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. MJ did undergo our latest peer review in 2017 which is still under review by the AICPA. Therefore, we provide a copy of our latest peer review letter below.

Your Vision Our Focus



System Review Report

February 20, 2016

To the Partners of
McConnell & Jones, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended **June 30, 2014**. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included audits of employee benefit plans and audits performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended **June 30, 2014**, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

Turner, Stone & Company, LLP

Turner, Stone & Company, LLP
Accountants and Consultants
12700 Park Central Drive, Suite 1400
Dallas, Texas 75241
Telephone: 972-239-1660 / Facsimile: 972-239-1661
Toll Free: 877-813-4191
Web site: turnerstone.com





V. FISCAL YEAR 2019 INTERNAL AUDIT PLAN

MJ developed the Fiscal Year 2019 Internal Audit Plan based on results of the annual risk assessment. The risk assessment included reviewing the agency's strategic plan, the Legislative Appropriations Request and the Survey of Employee Engagement results; reviewing prior audit reports and findings; and conducting discussions with management. Our assessment evaluated risk exposures relating to the TLC's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

MJ will conduct eight scheduled audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2020 Annual Internal Audit Plan and prepare the fiscal year 2019 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **2,136 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2019 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Copy Center Controls and Monitoring Process	Medium	September 2018	67
2	Centralize Audit Report Findings and Monitoring	Low	October 2018	48
3	HB2578 Implementation	High	November 2018	137
4	Game Changes	High	November 2018 (Current Changes) April 2019 (Anticipated Changes)	241
5	Drawings Studio	High	December 2018 – January 2019	241
6	Cyber Security Program	High	January 2019 – February 2019	281
7	Retailer Incentive Program	Low	February 2019	101
8	Lottery Operations Customer Service	Medium	March – April 2019	281
9	Bingo Follow-Up Activities	High	On-going	380
10	Information System User Access Reviews	High	On-going	45
11	Follow-Up on Prior Audit Findings	Compliance	On-Going	165
12	Monitor Fraud/Complaint Hotline	Compliance	On-Going	8
13	External Audit / Review Assistance	N/A	On-Going	8
14	Update Risk Assessment & Annual Audit Plan	Compliance	July 2019	69
15	Annual Internal Audit Report	Compliance	August 2019	9
16	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	55
	Total			2,136

Proposed audits will focus on internal controls and business processes



VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2018

The following represent external audit services that were procured by the Texas Lottery Commission or were ongoing in fiscal year 2018.

<i>Audit / Review</i>	<i>Auditor</i>
<i>Drawings Audit</i>	<i>DK Partners, P.C.</i>
<i>FY17 Financial Audit Services</i>	<i>Weaver and Tidwell, LLP</i>
<i>Security Study</i>	<i>Berry Dunn</i>

VII. REPORTING SUSPECTED FRAUD AND ABUSE

Texas Lottery Commission has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The Texas Lottery Commission included a link to the State Auditor’s Office (SAO) website for fraud reporting at the footer of the Texas Lottery Commission website. In addition, information on reporting suspected fraud to the State Auditor’s Office is included in the agency’s policies and procedures.

The Texas Lottery Commission utilizes EthicsPoint Reporting. EthicsPoint is a third-party vendor that provides an Internet and telephone based reporting system that can be accessed by Commission employees. This system is intended to supplement the existing avenues within the Commission for employees to report concerns. All EthicsPoint complaints are reviewed by the agency’s General Counsel and reported to SAO as applicable.

VIII. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TLC’s executive management and present these changes to the TLC Commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the Audit Committee will be submitted to the State Auditor’s Office (SAO).

This annual internal audit report was presented to the Commissioners and approved on October 3, 2018.

J. Winston Krause, Chairman