

Audit Report # 362-13-01

Post Payment Audit of the Texas Lottery Commission

**Fiscal Management Division
Expenditure Audit Section**

August 28, 2013



Susan Combs

Texas Comptroller of Public Accounts

Auditor: Alberto Lañas MBA, CTPM

S U S A N

C O M B S

TEXAS COMPTROLLER *of* PUBLIC ACCOUNTS

P.O. Box 13528 • AUSTIN, TX 78711-3528



August 28, 2013

Mr. Gary Grief
Executive Director
Texas Lottery Commission
611 East 6th Street
Austin, TX 78701-3715

Dear Mr. Grief:

We have completed a post-payment audit of certain payroll, travel, and purchase transactions of the Texas Lottery Commission (TLC). We would like to thank your staff. We appreciate their responsiveness and cooperation in assisting with this audit. A draft of the preliminary audit report was sent to the Comptroller, Kathy Pyka, on August 9, 2013.

Our purpose was to determine whether TLC's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS). TLC is responsible for ensuring that its staff is knowledgeable in those areas.

We intend for this report to be used by TLC's management and certain state officials and agencies as listed in Tex. Gov't Code Ann. § 403.071 (Vernon 2013). However, the audit report is a public record and its distribution is not limited.

We noted other matters involving the processing of expenditures by TLC that we have communicated in an email to the Comptroller, Kathy Pyka, dated August 9, 2013.

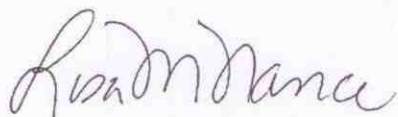
We would like to request input from you or your designee on the quality of the audit process and the service provided by the audit staff. Please use the following website to provide feedback on the post-payment audit process:

<https://fm.x.cpa.state.tx.us/fm/survey/audit/> or if you prefer, a hard copy has been included for your convenience. We greatly appreciate your feedback.

Mr. Gary Grief
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Thank you for your cooperation. If we can be of further assistance, please contact Alberto Lañas at Alberto.Lanas@cpa.state.tx.us or 512-463-4582.

Sincerely,

A handwritten signature in cursive script that reads "Lisa M. Nance".

Lisa M. Nance
Manager
Statewide Fiscal Services
Texas Comptroller of Public Accounts

Enclosure

cc: Mary Ann Williamson, Chair, Texas Lottery Commission
Kathy Pyka, Controller, Texas Lottery Commission
Alberto Lañas, Auditor, Statewide Fiscal Services, Texas Comptroller of Public Accounts

Audit scope

We audited a sample of TLC's payroll, travel, and purchase transactions that processed through USAS and USPS during the period beginning March 1, 2012 through Feb. 28, 2013 to determine compliance with applicable state laws. A limited review of grant transactions was also performed. The appendices to this report include schedules of the errors identified.

We believe this audit provides a reasonable basis for the findings set forth in the attached report. TLC should implement the recommendations listed in the Detailed Findings of this report. If necessary, the Comptroller's office may take the actions set forth in Tex. Gov't Code Ann. § 403.071(h) (Vernon 2013) to ensure that TLC's documents comply in the future. TLC must ensure that the findings discussed in this report are resolved.

Texas law requires the Comptroller's office to audit claims submitted for payment through the Comptroller. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the *Texas Payroll/Personnel Resource (Payroll Resource)*, and other pertinent statutes.

- No errors were identified.

Travel transactions

Travel transactions were audited for compliance with the GAA, *Textravel*, and other pertinent statutes.

- No errors were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, *eXpendit*, the *State of Texas Procurement Manual*, and other pertinent statutes.

- No errors were identified.

Grant transactions

Grants transactions were audited for compliance with the GAA, *eXpendit*, the *Procurement Manual*, and other pertinent statutes. This review consisted of verifying that the payments did not exceed the authorized amounts and followed contractual terms and conditions. In grant awards, we did not audit for compliance with procedures for awarding the grants or monitoring grantee compliance; therefore, we are not offering an opinion on those procedures.

EXECUTIVE SUMMARY

- No errors were identified.

Fixed assets

The audit included a review of a limited sample of fixed assets acquired by expenditures during our audit period to test for accurate reporting in the State Property Accounting System (SPA) and to verify existence, location, and proper reporting of the fixed assets.

- All of the assets tested were in their intended location and properly recorded in SPA.

Other Observations

Direct deposit authorization forms

A review was conducted of TLC's procedures to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally.

The audit identified:

- TLC did not use the direct deposit set-up form for one vendor, which did not adhere to the National Automated Clearing House Association rules requiring the identification of a direct deposit payment if it is an International Automated Clearing House Transaction.

Prior post payment audit and current audit recurring errors

We conducted a prior post-payment audit of TLC's payroll, travel, and purchase transactions on July 27, 2009.

During the current audit, the following no recurring errors were identified.

Contact

Alberto Lañas, MBA, CTPM
512-463-4582

Contributing Auditors

Bill Hornstein, MBA, CTP
Aleks Nećak, CTP

A state agency may request the Comptroller of Public Accounts (Comptroller's office) to pay a claim against the agency only by submitting the appropriate payment voucher to the Comptroller's office. TEX. GOV'T CODE ANN. §§ 404.046, 404.069 (Vernon 2013), §§ 2103.003, 2103.0035, 2103.004 (Vernon 2008). State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher. TEX. GOV'T CODE ANN. § 403.071(a) (Vernon 2013), § 403.078 (Vernon 2005) § 2103.004(a)(3) (Vernon 2008).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher. Tex. Gov't Code Ann. § 403.071(g)-(h) (Vernon 2013), Tex. Gov't Code Ann. § 2155.325 (Vernon 2008). In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis. Tex. Gov't Code Ann. §§ 403.011(a)(13), 403.079 (Vernon 2013), Tex. Gov't Code Ann. § 2155.324 (Vernon 2008).

The Expenditure Audit section of the Comptroller's office Statewide Fiscal Services conducts these audits.

Audit objectives

The primary objectives of a post-payment audit are to:

- Ensure that payments are documented so that a proper audit can be conducted.
- Ensure that payment vouchers are processed according to the requirements of the uniform statewide accounting and payroll systems.
- Verify that payments are made in accordance with certain applicable state laws.
- Verify that assets are in their intended location and are properly recorded in the State Property Accounting (SPA) system.
- Verify that the voucher signature cards and systems security during the audit period were consistent with applicable laws, rules, and other requirements.

Methodology

The expenditure audit section uses generally recognized sampling techniques to conduct a post-payment audit. The computer audit menu system software is used to generate a stratified random sample of payment vouchers for the audit, with a confidence level of 95 percent. The vouchers are audited in detail, and the results of the audit are projected to estimate the amount of claims that were unsubstantiated or improperly paid. Limited samples are also utilized where applicable.

Field Work

Each auditor in the expenditure audit section is required to approach the field work phase of each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures. If an auditor suspects during an audit that fraud, defalcations, or intentional misstatement of the facts has occurred, then the auditor will meet with his or her supervisor or the Statewide Fiscal Services manager, or both, to decide what course of action or additional procedures would be appropriate.

Reporting

Each auditor audits the payment vouchers included in a sample according to established policies and procedures. The audit findings are reported to the audited agency in the form of a report.

The audit report discloses the total dollar amount of any unsubstantiated payments or overpayments noted in the sample. In addition, the report shows the result of projecting those payments to the appropriate population. Finally, the report includes recommendations and requirements for the audited agency. Each auditor discusses the management issues noted during the audit at the exit and communicates details of these issues to the chief fiscal officer.