



# Texas Lottery Commission

## Internal Audit Services

AN INTERNAL AUDIT OF:

## HB 2578 Implementation

Report No. 19-002

January 3, 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 House Bill 2578 (HB 2578) Implementation

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

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission performed this internal audit as part of the approved FY 2019 Annual Internal Audit Plan.

### **Audit Objectives and Scope**

The objective of this audit was to assess TLC’s compliance with applicable sections of HB 2578 requirements. The audit period was September 1, 2016 through January 1, 2018.

The Charitable Bingo Operations Division (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).

The Texas Lottery Commission’s (TLC) Office of Controller (OC) is responsible for processing deposits prepared by CBOD, recording revenues deposited into the agency’s financial system, calculating the CBOD administrative cost percentage to apply to prize fees collected and processing prize fee allocation payments based upon information provided by CBOD.

### **Audit Focus**

This review focused on the following areas:

- TLC’s calculation of CBOD administrative costs.
- BOSS changes to ensure discontinuance of worker registry fees, conductor license fees, temporary license fees, and license amendment fees.
- License fee refunds as a result of HB 2578 changes.
- Prize fee allocations.

***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 did not ensure that all required refunds were issued prior to the January 1, 2018 deadline imposed by HB 2578. CBOD did not prepare a written procedure or document the process for issuing refunds related to the elimination of certain license fees. As a result of no written procedures for this process and staff turnover, current CBOD staff were not able to provide consistent documentation of how the license fee refunds were determined. We also noted that CBOD continued to issue invoices for license fees, collect and deposit license fees. Additionally, some refund amounts were incorrectly calculated and there were instances where refunds were issued and not posted to ledger accounts in BOSS and other instances where refund amounts were posted to ledger accounts in BOSS and not issued.

We noted that TLC’s Office of the Controller’s process for determining CBOD’s administrative costs to apply to prize fee distributions ensure compliance with HB 2578 and controls for prize fee allocation payment processing are effective.

### **Internal Control Rating**

Major Improvement Needed for CBOD Refund Calculations

Effective for TLC’s Office of Controller’s Processes

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

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

- Develop a written procedure documenting the methodology and processes used for refunding license fees.
- Update mailroom procedures to discontinue accepting license fees not due.
- Reconcile all charitable bingo ledger accounts.

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

High	Medium	Low	Total
2	1	1	4



## REVENUE, PRIZE FEE ALLOCATION AND REFUND PROCESSES

There are many processes involved to ensure that revenues are received, recorded and deposited in a complete, accurate and timely manner. There are also many processes involved in prize fee allocations and refunds. CBOD and TLC’s Office of the Controller have distinct roles and responsibilities for revenue recording, prize fee allocations and refunds. The table below provides the high-level overview of the roles and responsibilities associated with revenues, prize fee allocations and refunds.

**CBOD Revenue, Prize Fee Allocation and Refund Roles and Responsibilities**

Process	CBOD	TLC Office of Controller
Receive Payments <ul style="list-style-type: none"> <li>• License Fees</li> <li>• Prize Fees</li> <li>• Late Fees</li> <li>• Penalties</li> <li>• Miscellaneous Fees</li> </ul>	✓	
Prepare Deposit	✓	
Record Payments Received to Licensee's Account in BOSS	✓	
Review Prepared Deposit and Make Bank Deposit		✓
Record Deposit in Agency’s Financial System		✓
Prepare CBOD Administration Cost and Provide Percentage to CBOD Staff		✓
Determine Prize Fee Allocation Amounts and Submit List to TLC Office of Controller*	✓	
Review Prize Fee Allocation List and Reconcile Total Proposed Allocation to Prize Fees Deposited for the Period		✓
Prepare Prize Fee Payments to Respective City or County*		✓
Determine Refund Amounts and Prepare Refund Request	✓	
Process Refund Requests		✓

*\*HB 914 now requires charitable organizations to submit a portion of the prize fees collected directly to the respective city and/or county. As such, CBOD will no longer be determining prize fee allocation amounts due to the cities and counties and will not be making any prize fee distributions to cities and counties. CBOD anticipates that the last prize fee allocation payments they make to a city or county will occur in February 2020.*



## 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 2578 (HB 2578).*

We performed this audit as part of the approved FY 2019 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 2578 as it relates to the elimination of certain fees for licensure, disposition of certain fees collected by the agency under the Bingo Enabling Act, and allocation of prize fees collected.*

We designed audit procedures to:

- ✓ Determine if prize fee distributions were accurately calculated according to organizations' quarterly reports which reflect prize fees paid.
- ✓ Determine if prize fee allocations were accurately issued to the cities and counties intended to receive prize fees.
- ✓ Determine if administrative costs were accurately calculated to support CBOD's costs.
- ✓ Determine if license fees paid between September 1, 2016 and August 31, 2017 were calculated according to HB 2578's effective date of September 1, 2017 and respective refunds were issued to organizations on or before January 1, 2018.
- ✓ Determine if prize fee allocations and refunds are paid from appropriate liability accounts.

## SCOPE



*This audit period was September 1, 2016 through January 1, 2018. However, some data was provided through FY18. 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.

## CONCLUSION AND INTERNAL CONTROL RATING



This audit identified findings that resulted in an overall internal control rating of **Major Improvement Needed** for CBOD processes. The Office of Controller's processes for ensuring prize fees collected are accurately distributed and CBOD administrative costs are accurately calculated are effective. Figure 1 describes the internal control rating. This rating is for CBOD processes only.

We discussed opportunities to enhance internal controls and improved process efficiencies with management. Those observations are summarized in **Figure 2**.

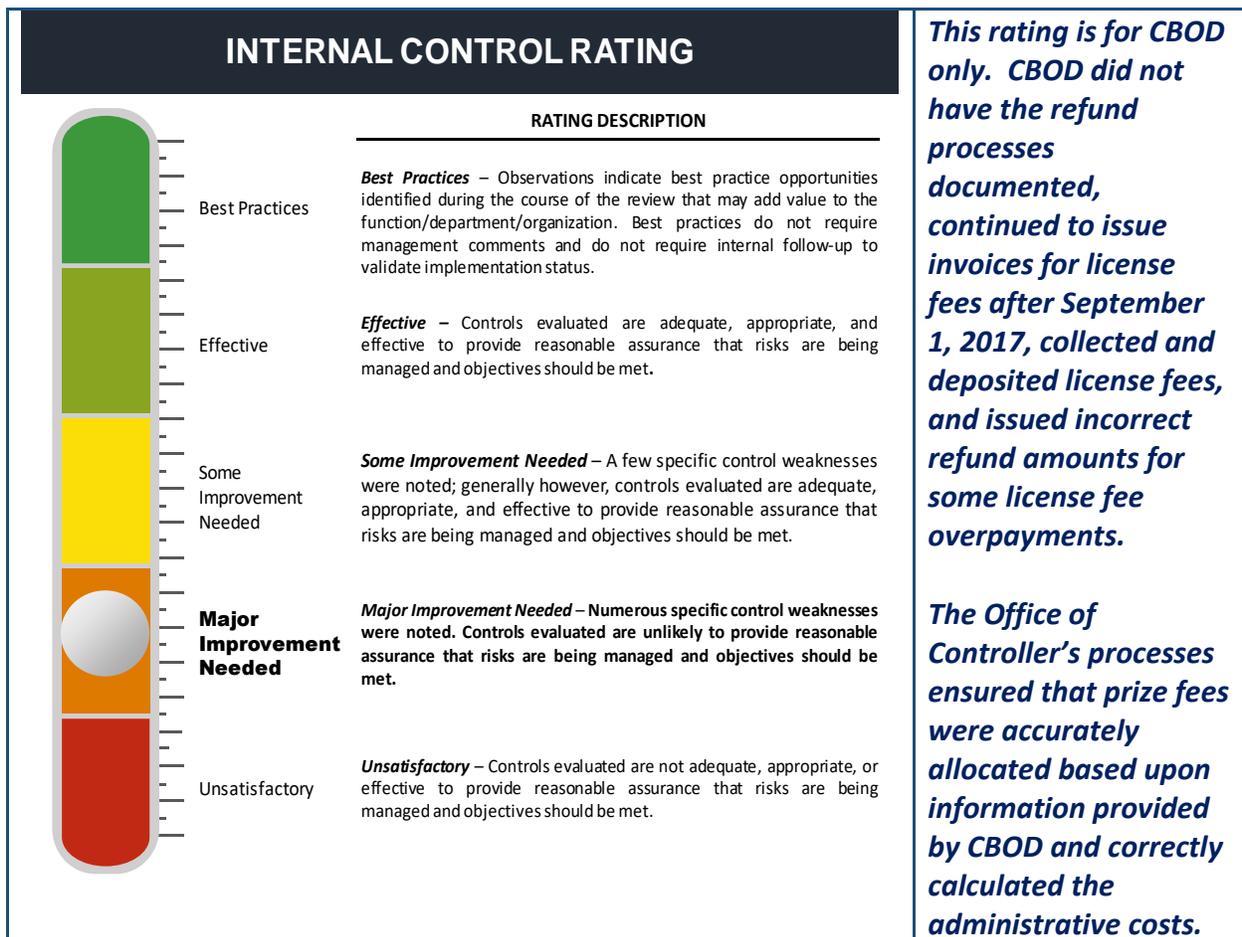


Figure 1 Internal control rating description.



## OBSERVATION AND RISK RATING SUMMARY



**Figure 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 did not document the procedures or their methodology for performing HB 2578 license fee refunds.</p> <p> <b>Recommendation:</b>                      CBOD should develop a procedure for reference purposes to act as a methodology for refunds, including license fees when the need arises.</p>	
2	<p>CBOD continued to issue invoices for license fees, collected and deposited organization’s and individuals’ fees that were eliminated due to HB 2578.</p> <p> <b>Recommendation:</b>                      CBOD should update its mailroom procedure to ensure that any conductor license fee and worker registry fee payments made are returned and not accepted and deposited.</p>	
3	<p>Because of continuing to collect and deposit organizations’ and individuals’ fees through mailroom procedures, 57 license fee and worker registry payments totaling \$52,508.79 was processed resulting in credit balances being placed on accounts and refunds being issued. Our reconciliation of documentation provided by CBOD for these 57 payments noted errors were made in determining amounts due to the state and refunds due to the organizations.</p> <p> <b>Recommendation:</b>                      Reconcile all charitable bingo accounts.</p>	
4	<p>Of the 823 license fee refunds processed, 95 refunds were processed after January 1, 2018 deadline imposed by HB 2578.</p> <p> <b>Recommendation:</b>                      No recommendations to report.</p>	

**Figure 2 Observation and Recommendation Summary.**

Risk Rating and Suggested Corrective Action Timing Legend:





## APPLICABLE SECTIONS OF HB 2578 OVERVIEW



*This section of the report provides an overview of changes that resulted from HB 2578.*

During the 85<sup>th</sup> Legislation Session in 2019, House Bill 2578 was passed which resulted in the elimination of certain fees for licensure and disposition of certain fees collected by the Texas Lottery Commission under the Bingo Enabling Act. **Figure 3** summarizes the changes mandated by HB 2578.

Change	Prior to HB 2578	Implementation of HB 2578
<b>Section 1</b> Eliminate License Fees as of September 1, 2017	Conductors, lessors, distributors, and manufacturers paid license fees based on gross receipts.	Conductors no longer pay license fees.  Lessors, distributors, and manufacturers continue to pay license fees based on gross receipts.
<b>Section 10(c)</b> Prize Fee Distribution to County/Municipality	Reconciled by CBOD and distributed to city/municipality on a quarterly basis.	Reconciled by CBOD and distributed to city/municipality (less administrative costs) on an annual basis.
<b>Section 10(i)</b> Funding CBOD Administrative Costs	Administration costs of CBOD funded by license fees of conductors, lessors, distributors, and manufacturers.	Administrative costs (actual) are reconciled and prize fee allocations to county/municipality is reduced by a percentage to cover CBOD's administrative costs.
<b>Section 13(b)</b> Issue Refunds to Conductors	Conductors paid license fees based on gross receipts annually or biannually. (Shown in <b>Figure 4</b> )	Conductor fees are no longer collected. Refund conductors of license fees paid between September 1, 2016 and August 31, 2017 on or before January 1, 2018.

**Figure 3** HB 2578 changes mandated by the Texas legislature.

**Figure 4** provides a screenshot of conductor license fees charged prior to HB 2578.

LICENSE CLASS	TAXPAYER_TYPE	LICENCE CLASS DESCRIPTION	BIANNUAL	
			LICENSE CLASS FEE	LICENSE CLASS FEE
A	Conductor	\$25,000 Or Less	\$132	\$264
B	Conductor	Between \$25,000 And \$50,000	\$264	\$528
C	Conductor	Between \$50,000 And \$75,000	\$396	\$792
D	Conductor	Between \$75,000 And \$100,000	\$528	\$1,056
E	Conductor	Between \$100,000 And \$150,000	\$792	\$1,584
F	Conductor	Between \$150,000 And \$200,000	\$1,188	\$2,376
G	Conductor	Between \$200,000 And \$250,000	\$1,584	\$3,168
H	Conductor	Between \$250,000 And \$300,000	\$1,980	\$3,960
I	Conductor	Between \$300,000 And \$400,000	\$2,640	\$5,280
J	Conductor	More Than \$400,000	\$3,300	\$6,600

**Figure 4** Conductor license fees by class prior to the implementation of HB 2578.



## TLC HB 2578 BUSINESS OBJECTIVES AND RISKS



*This section of the report provides a summary of applicable HB 2578 sections' business objectives, primary business risks, TLC's internal controls in place and the respective internal control assessment.*

### 1

#### BUSINESS OBJECTIVE 1

##### Charitable Bingo Prize Fee Collections

<b>Business Objective</b>	To ensure that prize fees due are calculated according to organizations quarterly reports which reflect prize fees paid, payments received are accurately recorded in BOSS, and allocations are accurately calculated.
<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 or understated revenues.</li> <li>➤ Charitable bingo prize fees collected may not be accurately allocated to cities and counties.</li> <li>➤ Process to ensure that all amended quarterly reports that impact prize fee reporting from prior periods may not be included in the current period's allocation calculations. This can cause over or under payments to the cities and counties.</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 submitted.</li> <li>➤ Prize fee payment and quarterly report documents are scanned into the agency's electronic document imaging system and retained.</li> <li>➤ Organizations who provide inaccurate quarterly report data and require an adjustment receive adjustment letters.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Reviewed applicable written procedures.</li> <li>➤ Performed audit testing on complete city/county prize fee calculations.</li> <li>➤ Observed mailroom process where prize fees and quarterly reports are received.</li> <li>➤ Reviewed document repository documentation.</li> </ul>
<b>Control Assessment</b>	<b>Internal Controls are Effective</b>
<b>Recommended Actions</b>	➤ None
<b>Management Action Plan</b>	None Required



**2**

**BUSINESS OBJECTIVE 2**

*Charitable Bingo Prize Fee Allocation Determination and Issuance*

<b>Business Objective</b>	To ensure that prize fee allocations are accurately calculated and issued to cities and counties intended to receive prize fees.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ Prize fee allocations issued for prize fees collected could be incomplete and/or inaccurate.</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.</li> <li>➤ CBOD accounting staff prepare a report from BOSS detailing prize fees collected for the period.</li> <li>➤ CBOD accounting staff and TLC 'Office of Controller (OC) collaborate to ensure BOSS prize fees collected and MIP prize fees deposited reconcile.</li> <li>➤ TLC's OC determines the CBOD administrative costs and provides CBOD with the administrative cost percentage to retain from city/county allocations.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Reviewed applicable written procedures.</li> <li>➤ Performed audit testing on prize fees paid and city/county prize fee allocations issued.</li> <li>➤ Performed walkthrough of CBOD administrative cost calculation.</li> </ul>
<b>Control Assessment</b>	<p><b>Internal Controls are Effective</b></p> <p>We noted that internal controls over prize fee allocation calculations are effective. However, amended quarterly returns that reduce the amount of prize fees due in prior periods have caused some cities and counties to receive overpayments in prior allocations. CBOD's process is to send a letter to the respective city or county requesting payment for the over payments.</p>
<b>Recommended Actions</b>	<ul style="list-style-type: none"> <li>➤ None with respect to prize fee allocation calculations. However, amended quarterly returns have several impacts on CBOD, including annual report information. The systemic issue of how long amended quarterly returns can be submitted needs to be addressed and resolved with reasonable time periods in which an organization can submit amended quarterly returns.</li> </ul>
<b>Management Action Plan</b>	None required.

**3**

**BUSINESS OBJECTIVE 3**

*Charitable Bingo Administrative Cost Calculations*

<b>Business Objective</b>	To ensure CBOD's administrative costs are accurately calculated in accordance with HB 2578 and to sustain CBOD's actual costs.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ Processes may not be in place to capture CBOD's administrative costs in a complete and accurate manner.</li> </ul>



<b>BUSINESS OBJECTIVE 3</b> <i>Charitable Bingo Administrative Cost Calculations</i>	
	<ul style="list-style-type: none"> <li>➤ CBOD’s administrative costs could be inaccurately calculated and result in misallocation of prize fees.</li> <li>➤ The administrative cost calculation may not be in compliance with HB 2578.</li> </ul>
<b>Management Controls in Place</b>	➤ TLC’s Office of the Controller staff performs administrative cost calculations based on actual CBOD costs incurred for the fiscal year.
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Reviewed applicable written procedures.</li> <li>➤ Performed walkthrough of TLC’s Office of the Controller administrative cost calculation.</li> </ul>
<b>Control Assessment</b>	<b>Internal controls are effective</b>
<b>Recommended Actions</b>	None
<b>Management Action Plan</b>	None Required.

<span style="font-size: 2em; border-radius: 50%; padding: 5px 15px; display: inline-block; margin-right: 10px;">4</span> <b>BUSINESS OBJECTIVE 4</b> <i>Charitable Bingo Conductor License Fee Refunds</i>	
<b>Business Objective</b>	To ensure license fees paid between September 1, 2016 and August 31, 2017 were calculated according to HB 2578 and refunded to organizations on or before January 1, 2018.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ CBOD may have issued refunds to organizations that did not submit license fees.</li> <li>➤ CBOD may not have issued refunds to Conductors that paid license fees.</li> <li>➤ Conductor license fees may be inaccurately calculated resulting in inaccurate refunds.</li> <li>➤ CBOD may not have refunded conductors by January 1, 2018 as required by HB 2578.</li> </ul>
<b>Management Controls in Place</b>	➤ CBOD worked with TLC’s Information Resources to generate reports of conductor license fees paid and license fees to determine potential refunds.
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Conducted interviews.</li> <li>➤ Analyzed and tested license fee refunds processed.</li> </ul>
<b>Control Assessment</b>	<p style="margin: 0;"><b>Internal controls are effective; however, some refunds were not processed by the required deadline.</b></p> <ul style="list-style-type: none"> <li>➤ Of the 823 license fee refunds processed, 95 refunds were processed after the January 1, 2018 deadline imposed by HB 2578.</li> </ul>



<b>BUSINESS OBJECTIVE 4</b> <i>Charitable Bingo Conductor License Fee Refunds</i>	
	<ul style="list-style-type: none"> <li>➤ CBOD did not document how the license fee refunds were calculated and had several versions of the license fee refund calculation spreadsheet. Each with differing amounts.</li> </ul>
<b>Recommended Actions</b>	CBOD should develop a procedure for reference purposes to act as a methodology for refunding any fees. The refunding of conductor license fees due to HB 2578 is a one-time occurrence.
<b>Management Action Plan</b>	Procedure CB-AC-001 Processing a Refund, and other documentation has been updated to include the methodology/procedures that address processing refunds, including HB2578 licensing refunds. Appropriate CBOD staff have been provided with the updated procedure and applicable training will be provided to any new potential staff so that a consistent process is being performed.

**5**

<b>BUSINESS OBJECTIVE 5</b> <i>Charitable Bingo Prize Fee Allocations and License Fee Refunds Distribution</i>	
<b>Business Objective</b>	To ensure that allocations and refunds are paid from appropriate liability accounts.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ License fee refunds may be inadvertently paid from an account other than license fees.</li> <li>➤ Prize fee allocations may be inadvertently paid from an account other than prize fees.</li> </ul>
<b>Management Controls in Place</b>	<ul style="list-style-type: none"> <li>➤ TLC’s OC staff ensure that prize fee allocations and license fee refunds are paid from the appropriate account through account codes and manager review of the proposed payments prior to processing the payments.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Conducted interviews.</li> <li>➤ Analyzed trial balance reports.</li> <li>➤ Performed walkthrough of TLC’s OC payment processing.</li> <li>➤ Reviewed applicable written procedures.</li> </ul>
<b>Control Assessment</b>	<b>Internal controls are effective</b>
<b>Recommended Actions</b>	None
<b>Management Action Plan</b>	None Required.



**6**

**BUSINESS OBJECTIVE 6**

*Elimination of Charitable Bingo Conductor License Fees*

<b>Business Objective</b>	To ensure that Charitable Bingo license fees previously paid by conductors are no longer collected after HB 2578’s effective date, September 1, 2017.
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ CBOD may continue to process conductor license fee payments that have been eliminated by HB 2578.</li> <li>➤ CBOD may not be in compliance with HB 2578.</li> </ul>
<b>Management Controls in Place</b>	<ul style="list-style-type: none"> <li>➤ BOSS was reconfigured to reflect the HB 2578 changes.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Conducted interviews.</li> <li>➤ Analyzed trial balance reports.</li> <li>➤ Reviewed applicable written procedures.</li> <li>➤ Reviewed BOSS reconfiguration requirements and testing.</li> </ul>
<b>Control Assessment</b>	<p><b>Major improvement needed.</b></p> <ul style="list-style-type: none"> <li>➤ CBOD staff continued to perform license fee recalculations and issue invoices after the September 1, 2017 deadline to impose and collect license fees.</li> <li>➤ CBOD staff continued to process license fee and worker registry payments received by mail until around June 2019.</li> <li>➤ Some charitable bingo conductors’ amounts due and refunds were incorrectly calculated.</li> </ul>
<b>Recommended Actions</b>	<ul style="list-style-type: none"> <li>➤ Reconcile all CBOD’s ledger accounts to ensure that they reflect accurate balances.</li> </ul>
<b>Management Action Plan</b>	<p>CBOD instituted a policy that any checks received for conductor license fees or worker registration fees are returned and not deposited. CB-AC-010 Mailroom Procedure has been updated to specifically address conductor license fees and worker registry fee payments, as well as any other incorrectly submitted payments that are received.</p> <p>Management remains committed to addressing the area noted in this report. Management has designated CBOD’s Accounting Services Department (accountants) to perform reconciliations of ledger accounts; and complete a reconciliation template for each account for review prior to making any ledger corrections.</p>



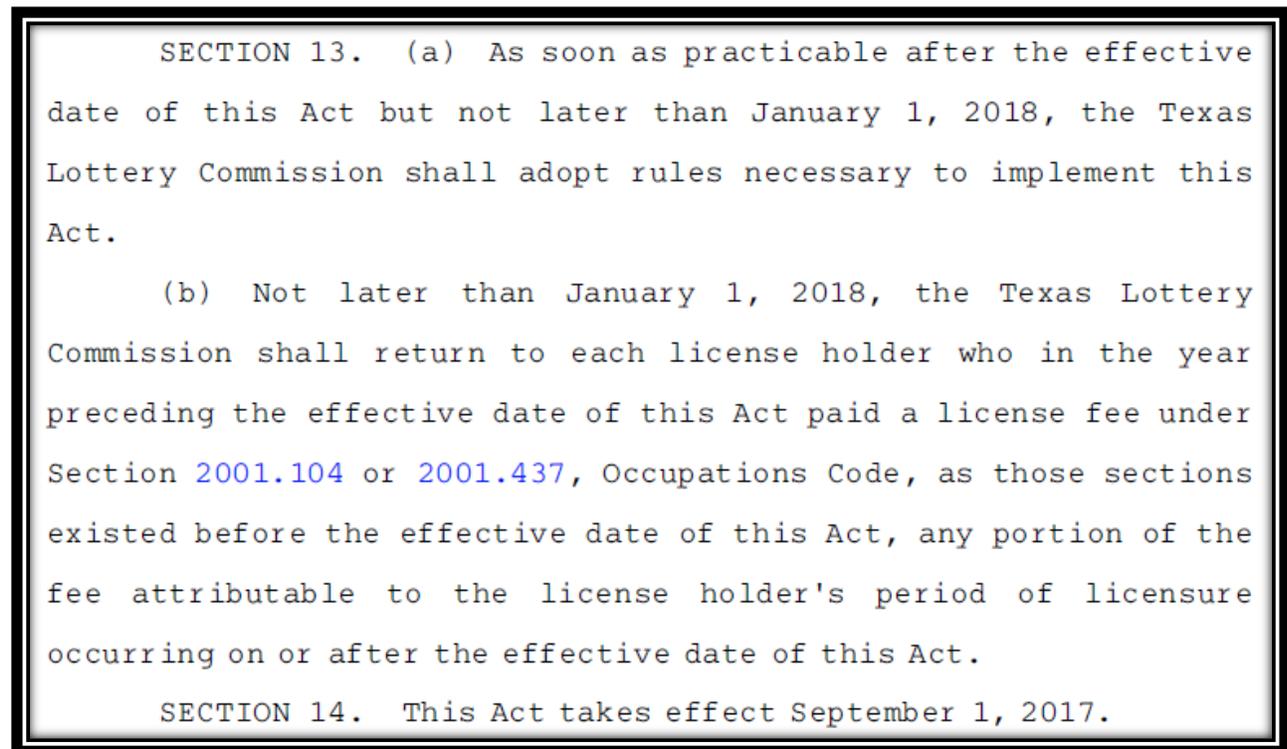
## DETAILED OPPORTUNITIES AND RECOMMENDATIONS



*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.*

### **Written Procedures and Methodology for Calculating and Issuing Refunds (High Risk)**

During the 85<sup>th</sup> Legislature proceedings, HB 2578 was passed which brought about significant changes for Texas charitable bingo. The elimination of certain fees for licensure and revised allocation of prize fees collected by the Texas Lottery Commission under the Bingo Enabling Act required CBOD and TLC to implement changes to certain business processes. CBOD performed HB 2,578 license fee refunds without documenting the procedures and methodology applied. Internally, there was coordination between CBOD, OC, Information Resources and Legal Services; however, the HB 2578 was related primarily to CBOD processes. **Figure 5** provides a snapshot of HB 2578 section that applies to the license fee refunds.



**Figure 5 HB 2578 Section 13-14**

CBOD issued 823 license fee refunds as a result of HB 2578. We noted that of these, 95 were issued after the January 1, 2018 deadline.

We also noted that during the period where refund amounts were being determined the refund amounts would be placed on an organization's ledger account, reversed, added again and not



processed so they may not have received the refund. Conversely, there were more than 70 refunds that were issued but the refund was not recorded on the ledger account until 2019.

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 calculations in an inconsistent manner that may result in different results.

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

Although refunding of license fees for HB 2578 was a one-time occurrence, CBOD should develop a written procedure that includes a methodology for refunding license fees. This can serve as a tool for future needs.

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

Management concurs with this recommendation and has taken several actions regarding implementing the recommendations. Procedure CB-AC-001 Processing a Refund provides the steps for accounting staff to examine accounts and provide refunds:

- overpayment of prize, license, amendment fees.
- refund erroneous license fee payments, erroneous worker registry fees and erroneous amendment fee payments and erroneous rental tax payments
- Denial of an application with a fee; and
- Withdrawal of an application with a fee.

Additionally, Accounting Services uses a methodology developed in FY 2016 and in coordination with the Office of Controller, to determine how to prorate and refund conductor license fees to comply with HB2578. This methodology identifies the daily costs of license by dividing the number of days in the license period and prorating days beyond the effective date of HB 2578.

ASD prorates the Applications to Renew a License to Conduct Charitable Bingo that reflects the actual amount due for license periods that predates House Bill (HB) 2578) to ensure organizations receive statements that reflect an accurate remittance balance to be paid to the CBOD. If it is determined that an organization is due a refund, ASD staff examines the account and processes the refund for management review and approval. Appropriate CBOD staff have been provided with the updated procedure and applicable training will be provided to any new potential staff so that a consistent process is being performed.

### ***License Fee Invoices Issued and Payments Received after HB 2578 (High Risk)***

HB 2578's elimination of conductor fees was effective as of September 1, 2017. HB 2578 also eliminated CBOD's authority to issue invoices for license fees after September 1, 2017. However, CBOD continued to accept license fee payments and issued invoices for license fees that resulted



from recalculation based upon gross receipts reported on subsequent quarterly reports. Because of continuing to collect and deposit organization's and individuals' fees through mailroom procedures, we noted that at the time of this audit, organizations had 57 license fee payments totaling \$52,508.79 processed and deposited. This resulted in credit balances being placed on accounts. Below is a summary of fees accepted and deposited after September 1, 2017.

License Fee Payments (Annual/Biannual)

- ✓ In the months subsequent to HB 2578 passing and the September 1, 2017 effective date, CBOD processed 17 payments totaling \$25,402.51.
- ✓ In 2018, CBOD processed 34 payments totaling \$27,016.28.

Amendment Fee Payments

- ✓ In 2018, CBOD processed 4 payments totaling \$40.

Worker Registry Fee Payments

- ✓ In 2018, CBOD processed 2 payments totaling \$50

Upon further discussions with CBOD staff about these payments we were provided documents that indicate incorrect recalculations were performed. We also noted an instance where a refund was issued by the agency to an organization and a subsequent invoice was issued. Because of the errors identified in this limited number of accounts we reviewed, we believe the data on ledger accounts may not be reliable.

Continuing to accept and deposit license fee payments despite its elimination by HB 2578 creates additional administrative costs associated with depositing and refunding the payments. It also creates the following risks:

- ✓ Non-compliance with HB 2578.
- ✓ Reduced funds available to organizations for charitable distributions.
- ✓ Credit balances on organizations accounts which requires additional monitoring and that will need to be refunded.

***Audit Recommendation #2***

CBOD should update its mailroom procedure to ensure that any conductor license fees and worker registry fee payments made are returned and not deposited.

***Management Response Recommendation #2***

Management concurs with this recommendation and has already taken several actions regarding implementing the recommendations. CBOD instituted a procedure in 2018 that any checks received for conductor license fees or worker registration fees are returned and not deposited. CB-AC-010 Mailroom Procedure has been updated to specifically address conductor license fees and worker registry fee payments, as well as any other incorrectly submitted payments that are received.

***Audit Recommendation #3***

CBOD should reconcile all ledger accounts to determine the correct balances.



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

Management concurs with the recommendation. Due to two recent staff resignations, there are currently limited staff resources (CBOD presently has a staff of two accountants along with two vacant accountant positions), management remains committed to addressing the area noted in this report. Management has designated CBOD's Accounting Services Department (accountants) to perform reconciliations of ledger accounts; and complete a reconciliation template for each account for review prior to making any ledger corrections.

Staff will generate reports from BOSS that list details of each ledger account. Accountants will complete a reconciliation template for each account to accurately reflect what is in the ledger and if any corrections need to be made. A project tracking log will be used to track and document progress.

The Audit Department will review the generated transaction report for each ledger account to ensure that the submitted templates are correct and complete; and accurately reflect what is in the ledger to include the accountants' proposed correcting entries. After review, the Audit Department will endorse the template and forward to the division director.

The final review and approval of the reconciliation template and applicable correcting entries will be made by the division director.

Completion date: Aug 31, 2020