



An Audit of the Texas Lottery Commission

Audit Report # 362-18-01
May 17, 2019

Glenn Hegar
Texas Comptroller of Public Accounts



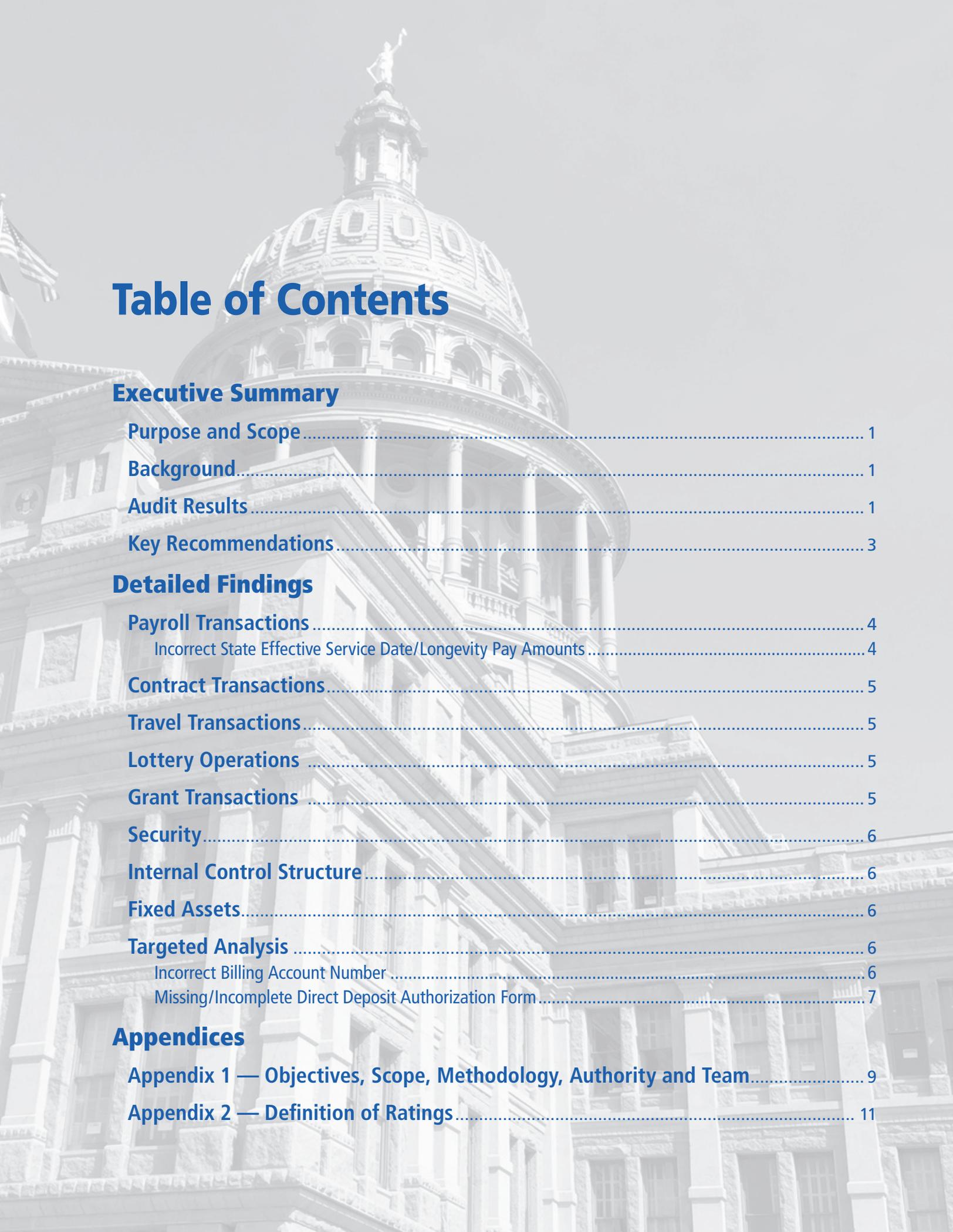


Table of Contents

Executive Summary

Purpose and Scope	1
Background.....	1
Audit Results	1
Key Recommendations.....	3

Detailed Findings

Payroll Transactions	4
Incorrect State Effective Service Date/Longevity Pay Amounts	4
Contract Transactions.....	5
Travel Transactions.....	5
Lottery Operations	5
Grant Transactions	5
Security.....	6
Internal Control Structure	6
Fixed Assets.....	6
Targeted Analysis	6
Incorrect Billing Account Number	6
Missing/Incomplete Direct Deposit Authorization Form.....	7

Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team.....	9
Appendix 2 — Definition of Ratings.....	11



Executive Summary

Purpose and Scope

The objectives of the Texas Lottery Commission (Commission) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Dec. 1, 2016, through Nov. 30, 2017.

Background

The 73rd Texas Legislature passed House Bill 1587 creating the Texas Lottery Commission in 1993. The Commission is composed of five members appointed by the governor with the advice and consent of the senate. The Texas Lottery Commission generates revenue for Texas education and veterans' assistance programs through the management and sale of entertaining lottery products.

**Texas Lottery Commission
website**

<https://www.txlottery.org>

Audit Results

The Commission generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with contracting and procurement, travel, lottery operations (consisting of service fees paid to lottery operators, lottery incentive bonuses and lottery winnings and installments) and grants. However, the Commission should consider making improvements to its payroll, direct deposit authorization and charge card billing process.

The auditors reissued one finding from the last audit conducted at the Commission related to missing direct deposit authorization forms. Auditors originally issued these findings in August 2013. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	One employee was underpaid longevity pay.	Compliant, Findings Issued
Contract Transactions	Did purchase transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Travel Transactions	Did travel transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Lottery Operations	Did the lottery operation transactions consisting of service fees paid to lottery operators, lottery incentive bonuses, and lottery winning and installments comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Grant Transactions	Did grant payments comply with the state laws and regulations pertaining to grants/loans and other pertinent statutes?	No issues	Fully Compliant
Security	Are Commission employees who are no longer employed, or whose security was revoked, properly communicated to the Comptroller's Office?	No issues	Fully Compliant
Internal Control Structure	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant



Repeat Finding



Area	Audit Question	Results	Rating
<u>Targeted Analysis</u>	Did the Commission comply with the payment cards and direct deposit authorization requirements?	<ul style="list-style-type: none">• Incorrect billing account number•  Missing/incomplete Direct Deposit Authorization forms	Compliant, Findings Issued



Repeat Finding

Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Commission must review the payroll/personnel records for all current and new employees to ensure any prior state service is properly verified and documented to prevent incorrect payments of longevity pay.
- The Commission must continue to ensure payments for third-party transactions are processed in accordance with [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPs Financials Invoice Number Field Requirements \(FPP E.023\)](#), and continue to review payment card statements to ensure payments are posted correctly.
- The Commission must ensure that all payees requesting direct deposit payments submit a completed, signed direct deposit authorization form with the international payment verification question answered.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 30 employees involving 80 payroll transactions to ensure the Commission complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. The review also identified an employee with unaccounted prior state service. Additionally, a limited sample of 10 voluntary contribution transactions were audited with no exceptions identified. Audit tests revealed the following exceptions in the payroll transactions.

Incorrect State Effective Service Date/Longevity Pay Amounts

Auditors identified one employee with a missing Prior State Service Verification form, resulting in an incorrect state effective service date and a longevity underpayment of \$5,280. The employee had disclosed the previous employment to the Commission.

When an agency hires an employee, the agency must research whether the employee has prior state employment. If prior state employment exists, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of incorrectly paying longevity pay. Also, an employee may receive longevity pay for the month in which he or she has accrued 24 months of lifetime service credit only if the employee's anniversary falls on the first day of the month. Otherwise, the employee begins receiving longevity pay on the first of the following month. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).

Per the Commission, the employee reported prior state service on both the application and the internal Record of Previous State Employment form completed in new hire orientation; however, it was overlooked. As a result of the audit, the Commission requested a Prior State Service Verification form and corrected its internal system to reflect the accurate state effective service date. In addition, the Commission made the required leave accrual adjustments and compensated the employee for the underpayment of longevity pay.

Auditors provided the Commission with the schedule of incorrect longevity payment amounts during fieldwork. This is not included with this report due to confidentiality concerns.

Recommendation/Requirement

The Commission must continue to review the payroll/personnel records for all current and new employees to ensure any prior state service is properly verified and documented to prevent incorrect payments of longevity pay.



Commission Response

The Texas Lottery Commission concurs with the recommendation.

The Commission notified the employee of the underpayment of longevity pay and processed the underpayment to the employee in July 2018.

To ensure that prior state service records are not overlooked in the future, Human Resources has implemented a secondary review of state service records by an employee independent of the individual assigned to verify prior state service.

Contract Transactions

Auditors developed a representative sample of 13 contract transactions from two contracts to ensure the Commission complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. In addition, auditors conducted a limited review of the Commission's headquarters lease agreement to ensure renewals and amendments to the lease were reviewed and evaluated by the Commission and reported to oversight agencies such as the Texas Facilities Commission (TFC) and the Legislative Budget Board (LBB). Audit tests revealed no exceptions for these payments.

Travel Transactions

Auditors developed a representative sample of 20 travel transactions and 10 non-overnight travel transactions to ensure the Commission complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Lottery Operations

Auditors developed a representative sample of five service fee transactions paid to lottery operators, five lottery incentive bonus transactions and five lottery winnings and installments transactions to ensure the Commission complied with the state laws and regulations pertaining to lottery operations and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Grant Transactions

Auditors developed a representative sample of four grant transactions to ensure the Commission complied with the state laws and regulations pertaining to grants/loans and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.



Security

The audit included a security review to identify Commission employees with security in the Uniform Statewide Accounting System (USAS) or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed no security exceptions.

Internal Control Structure

The review of the Commission's internal control structure was limited to obtaining reports identifying current user access. The review did not include tests of existing mitigating controls. Audit tests revealed no security exceptions.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for proper tracking in the Commission's internal system. All assets tested were in their intended location and properly tagged.

Targeted Analysis

The audit included a review of various special reports run for the Commission outside the sample. One of the special reports lists transactions with an incorrect billing account number as prescribed by [FPP A.043](#) and [FPP E.023](#). The report consisted of a list of 364 transactions. On a separate special report, a review was conducted of the Commission's procedure to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally. Ten Direct Deposit Authorization Forms were reviewed. Audit tests revealed the following exceptions in the targeted analysis portion of the audit.

Incorrect Billing Account Number

In a report generated outside of the sample that identifies potential payments processed incorrectly to third-party vendors during the audit period, auditors identified 108 transactions processed incorrectly to the state's payment card vendor. The incorrect payments totaled \$21,642.73. The Commission failed to provide the correct billing account number as prescribed by [FPP A.043](#) and [FPP E.023](#). As a result, the vendor might not be able to directly post payments to the Commission's payment and travel card accounts. The Commission stated that beginning April 11, 2018, it modified the process of preparing the payment transactions to Citibank. The Commission updated its procedures to further clarify the processing of these transactions and provided a copy of the updated procedures on June 21, 2018.



Recommendation/Requirement

The Commission must continue to ensure payments for third-party transactions are processed in accordance with [FPP A.043](#) and [FPP E.023](#). To avoid account delinquency or reconciliation issues, auditors recommend the Commission continue to review payment card statements to ensure payments are posted correctly.

Commission Response

The Texas Lottery Commission concurs with the recommendation.

The Commission updated payment processing procedures in June 2018 to comply with the requirements of processing payments for third-party transactions. The specific modification provided further clarification that the last 10 digits of the corporate billing account number should be placed in the invoice number field for entry in USAS.

All payments for third-party transactions are currently being processed in accordance with FPP A.043 and FPP E.023.

Missing/Incomplete Direct Deposit Authorization Form

From a report generated outside of the sample, auditors identified one missing Direct Deposit Authorization form and two incomplete forms. Without a properly completed form on file, the Commission was unable to indicate whether state funds were forwarded to a financial institution outside the United States.

The [Office of Foreign Assets Control \(OFAC\)](#) requires that all direct deposit payments transmitted outside the United States be identified and monitored. To avoid potential federal penalties, each state agency must:

- Show due diligence in the processing of all direct deposit payments.
- When possible, ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately transferred to financial institutions outside of the United States.

International Automated Clearing House transactions (IATs) are payments destined for a financial institution outside of the United States. The Comptroller's office does not participate in IATs. If a payee informs an agency that a payment is destined for a financial institution outside the United States, then the agency may not set up that payee for direct deposit.

Without current and properly completed forms on file, the Commission is unable to follow the direct deposit requirements.



Per the Commission, the missing form was not located in its files. The Commission contacted the vendor to determine if it had a copy on file. Since the vendor did not retain a copy, the Commission provided an updated Direct Deposit Authorization form on June 4, 2018. Regarding the two incomplete forms, the Commission did not follow up with the employees to ensure a response was received. Per the Commission, all direct deposit forms on file for payroll transactions submitted after the form revisions were reviewed to ensure that all forms were completed.

Recommendation/Requirement

The Commission must ensure that all payees who request direct deposit payments submit a completed, signed Direct Deposit Authorization form with the international payment verification question answered. A Direct Deposit Authorization form should not be processed if the form is unsigned, incomplete or has a blank International Payment Verification section.

Commission Response

The Texas Lottery Commission concurs with the recommendation.

The Commission reviewed all direct deposit forms on file for payroll transactions to ensure the "International Payments Verification" section of each form was fully completed. There were two forms that did not have the "International Payments Verification" section complete. The two forms with blank International Payment Verification sections were amended in June 2018.

All direct deposit forms for payroll transactions are currently reviewed by the Payroll Officer to ensure each field is complete prior to processing.

During the audit, one Direct Deposit Authorization form could not be located within the Commission's files. The payee provided a duplicate Direct Deposit Authorization form as a result of a request by the Commission.

The Commission has revised its filing system for Direct Deposit Authorization forms to ensure all forms can be located.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - The Uniform Statewide Payroll/Personnel System (USPS),
 - The Standardized Payroll/Personnel Report System (SPRS) or
 - The Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Texas Lottery Commission (Commission) payroll, purchase and travel transactions that processed through USAS and USPS during the period from Dec. 1, 2016, through Nov. 30, 2017, to determine compliance with applicable state laws.

The Commission receives appendices with the full report, including a list of the identified errors.

Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Commission should implement the recommendations listed in the Detailed Findings of this report. It is the Commission's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Commission's documents comply in the future. The Commission must ensure that the findings discussed in this report are resolved.

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



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

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.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

Mayra Castillo, CTCD, Lead Auditor

Shanda Hernandez, CTCD

Derik Montique, MBA, CFE, CGFM

Raymond McClintock



Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.