



# **Texas Lottery Commission**

## **Internal Audit**

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**An Internal Audit of  
Entity-Wide Performance Measures**

**April 28, 2016**

**Report #16-002**

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## 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 entity-wide performance measures. This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Generally Accepted Government Auditing Standards*. 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 for this audit provides a reasonable basis for our observations and conclusions based on our audit objectives.

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

### Objectives and Scope

The purpose of this audit was to review business processes and internal controls related to the Texas Lottery Commission’s entity-wide performance measures reported to the state through the Automated Budget and Evaluation System of Texas (ABEST), operating budgets, and Legislative Appropriations Requests (LAR).

The objectives of the audit were to:

1. Determine whether TLC has adequate controls over the collection, calculation, review, document retention and reporting of its performance measures, and

2. Determine whether TLC is accurately reporting its performance measures to the ABEST System, operating budgets, and Legislative Appropriations Requests (LAR).

To accomplish these objectives we designed procedures to gain an understanding of TLC’s business processes for the source data, collection, processing, review, reporting, and data retention for the performance measures. In conducting these procedures we analyzed:

1. Written procedures;
2. Performance measure supporting documentation;
3. Data input and processing controls and accuracy;
4. Management review processes;
5. Information system general controls; and
6. Data output controls.

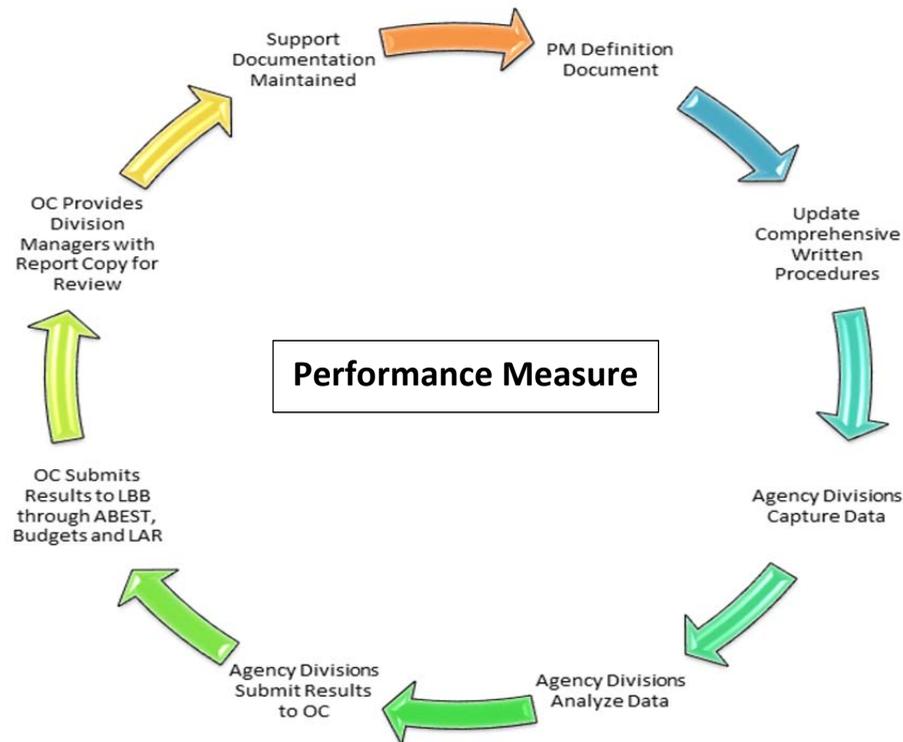
***TLC reports on 60 performance measures.  
Internal Audit reviewed 19 (32%) of these.***

### Acknowledgement:

We wish to thank all staff involved in this audit for their professionalism and positive outlook toward the assessment of their respective role within the performance measure business processes. The timely completion of this audit was due to their efforts and responsiveness to our requests.



Figure ES1 provides an overview of TLC’s performance measure business processes.



**Figure ES1 Performance Measure Business Processes** TLC’s performance measure process begins with the respective performance measure approved by the Legislative Budget Board (LBB) and the Governor’s Office of Budget, Planning, and Policy (GOBPP). TLC then determines the data sources and calculation methodology and prepares the performance measure definition document.

The Agency reports on a total of 60 performance measures; 12 (20 percent) of these are considered key while 48 (80 percent) are considered non-key. Twenty six (54 percent) of the

performance measure are related to Lottery operations and 22 (47 percent) are related to CBOD. Figure ES2 provides a summary of TLC’s performance measures by type and operations.

Operations/Division	Total PM	Key PM	Non-Key PM	Percentage of Total PM
<i>Lottery Operations</i>				
Administration	4	3	1	7%
Enforcement	8	0	8	13%
Lottery Operations	16	2	14	27%
Office of Controller	4	1	3	7%
<i>Subtotal</i>	32	6	26	54%
<i>CBOD</i>				
CBOD	28	6	22	47%
<b>Total Performance Measures</b>	<b>60</b>	<b>12</b>	<b>48</b>	
<b>Percent of Total PM</b>		<b>20%</b>	<b>80%</b>	

**Figure ES2: Texas Lottery Commission Performance Measure Summary by Type and Operations** TLC is required by the Legislative Budget Board (LBB) to track and report on 60 performance measures. Twelve (20 percent) of these are considered by the LBB to be key performance measures and are reported through ABEST. The 48 non-key performance measures are reported in TLC’s operating budget (odd-numbered calendar years) and the legislative Appropriations Request (LAR) (even-numbered calendar years) and not through ABEST. Note: Total is greater than 100% due to rounding.

This audit reviewed 19 (32 percent) of the Agency’s performance measures; nine related to Lottery operations and 10 related to CBOD. **Figure ES3** provides a summary of performance measures audited by type and operations.



Operations/Division	Total PM Audited	Key PM Audited	Non-Key PM Audited	Percentage of Total PM Audited
<i>Lottery Operations</i>				
Administration	2	2	0	11%
Enforcement	2	0	2	11%
Lottery Operations	3	2	1	16%
Office of Controller	2	1	1	11%
<i>Subtotal</i>	9	5	4	49%
<i>CBOD</i>				
CBOD	10	6	4	53%
<b>Total Performance Measures Audited</b>	<b>19</b>	<b>11</b>	<b>8</b>	
<b>Percent of Total PM</b>		<b>58%</b>	<b>42%</b>	

**Figure ES3: Texas Lottery Commission Performance Measures Audited by Type and Operations** *Internal Audit reviewed performance measure internal controls and reporting accuracy. Nine (49 percent) of the performance measures reviewed were related to Lottery operations while 10 (53 percent) were related to CBOD. Eleven (58 percent) of the performance measures reviewed are considered key performance measures. Note: Total is greater than 100% due to rounding.*

**Audit Period**

The audit period included September 1, 2014 through August 31, 2015. However, some test procedures were performed as of fieldwork date. This work product was a point-in-time evaluation that cannot address the inherent dynamic nature of subsequent changes to the process/procedures reviewed.

**Results and Conclusions:**

Based on the audit results, we determined that while the Agency does have established processes and written procedures in place controls over the business processes surrounding

performance measure data capturing, calculating and reporting **requires some improvement** in order to ensure accurate reporting and comply with regulatory requirements.

**Report Structure:**

This report is divided into two sections; Lottery and Charitable Bingo Operations Division (CBOD or Bingo). A summary of the results of the Lottery’s performance measures audit objective results is presented in **Figure ES4** and their performance measure’s recalculated numbers is presented in **Figure ES5**. CBOD’s performance measures audit objectives results are presented in **Figure ES6** and their performance measure’s recalculated numbers is presented in **Figure ES7**. The detailed audit findings section provides the details for each audit finding noted during the audit.

The noted observations for both Lottery and CBOD can be easily remedied to strengthen performance measure controls. This audit was a sample of the Agency’s performance measures. The Agency should conduct a review of all of its performance measures to ensure that:

1. Written procedures reflect actual processes;
2. Supporting documentation is printed and maintained according to SAO guidelines and State records retention policies;
3. Management documents review of performance measure calculations before they are provided to the Office of Controller;
4. Time and efficiency studies are updated on a regular basis; and
5. A sample of performance measures is manually calculated on a regular basis to ensure information system accuracy and completeness.



**Lottery Observations Summary:**

Internal audit obtained procedures and supporting documentation for each of Lottery’s performance measure audited. We conducted testing and process analysis to determine compliance with SAO guidelines. **Figure ES4** provides a summary of each of Lottery’s performance measure’s audit results compared to the audit objectives.

P.M. #	P.M. Type	Performance Measure Description	Detailed Written Procedures Exist	Supporting Documentation Maintained	Management Review of Reported Outcomes	P.M. Accurately Reported within 5%
<b>Lottery Performance Measures</b>						
1.1.1	OC	Percent of Retailers Satisfied with Lottery Commission	✔ 1	✔	✔	✔
1.1.3	OC	Percentage of Net Lottery Sales Spent on Agency Administration	✔ 1	✔	✔	✔
1.1.6	OC	State Revenue Received Per Advertising Dollar Expended	✔ 1	✔	✔	✔
1.1.1.1	OP	Number of Retailer Business Locations Licensed	✔ 1	✔	✔	✔
1.1.1.1	EF	Average Cost Per Retailer Location License Issued	✔ 1	✔	✔	✔
1.1.3.1	EF	Average Cost Per Survey Issued (Lottery)	✔ 1	✔	✔	✔
1.1.4.3	OP	Number of Lottery Background Investigations Completed	✔ 1	✘	✔ 2	?
1.1.4.1	EF	Average Time to Complete Lottery Investigations (Days)	✔ 1	✘	✔ 2	✔
1.1.8.3	OP	Dollar Amount of Advertising Budget Spent on Television Advertising (Millions)	✔ 1	✔	✔	✔

**Figure ES4 Lottery Performance Measure Audit Summary** The results of each performance measure’s audit objectives are summarized in this figure. Details of each exception can be found in the Lottery detailed observations section of this report.



Legend: OC = Outcome OP = Output EF = Efficiency

- Internal controls are effective and in compliance with SAO requirements; no observations noted
- Internal controls are not in compliance with SAO requirements; observation noted and discussed in this report
- Unable to recalculate performance measure due to lack of supporting documentation
- 1 – Written procedures exist but require enhancements to be comprehensive as required by the SAO
- 2 – A review is performed but the review is not documented by signature or date to validate completion

Internal audit obtained the reported information and supporting documentation for each of Lottery’s performance measure for the audit period. The supporting documentation was used to recalculate the measure using the stated methodology in the respective performance measure definition approved by the Legislative Budget Board. **Figure ES5** provides a comparison of the reported performance measure result to our recalculations. **Eight of Lottery’s nine performance measures audited were accurately reported and one could not be recalculated due to lack of detailed support documents maintained.**

G/O/S	Measure Type	Measure Description	Reported Through	Reported Performance Measure	Recalculated Performance Measure	Calculated Deviation from Stated Methodology
<b>Lottery Performance Measures</b>						
1.1.1	OC	Percent of Retailers Satisfied with Lottery Commission	ABEST	FY2015 95.85%	FY2015 95.85%	0%
1.1.3	OC	Percentage of Net Lottery Sales Spent on Agency Administration	Itemized Operating Budget 2016	FY2015 4.46%	FY2015 .46%	0%
1.1.6	OC	State Revenue Received Per Advertising Dollar Expended	ABEST	FY2015 \$39.11	FY2015 \$39.11	0%
1.1.1.1	OP	Number of Retailer Business Locations Licensed	ABEST	FY2015 17,403	FY2015 17,403	0%
1.1.1.1	EF	Average Cost Per Retailer Location License Issued (Lottery)	Itemized Operating Budget 2016	FY2015 \$167.64	FY2015 \$167.64	0%
1.1.3.1	EF	Average Cost Per Survey Issued	ABEST	FY2015 \$2.39	\$2.39	0%



G/O/S	Measure Type	Measure Description	Reported Through	Reported Performance Measure	Recalculated Performance Measure	Calculated Deviation from Stated Methodology
1.1.4.3	OP	Number of Lottery Background Investigations Completed	Itemized Operating Budget 2016	528	Not able to recalculate as detailed supporting documentation was not maintained	N/A
1.1.4.1	EF	Average Time to Complete Lottery Investigations (Days)	Itemized Operating Budget 2016	42.25	42.26	.02%
1.1.8.3	OP	Dollar Amount of Advertising Budget Spent on Television Advertising (Millions)	ABEST	FY2015 \$8.31	FY2015 \$8.31	0%

**Figure ES5 Lottery Performance Measure Recalculation Summary** *TLC's reports its key performance measures through ABEST and non-key performance measures through the bi-annual Legislative Appropriations Request (LAR). All performance measure results are provided to TLC's Office of Controller on an annual basis at a minimum, regardless of the reporting mechanism.*

*\* Population could not be identified due to lack of supporting detailed documentation therefore the recalculation is based on available documentation*

Legend: OC = Outcome OP = Output EF = Efficiency

We noted the following observations related to the Lottery's nine performance measures reviewed for this audit. These observations do not have an impact on the Lottery's operations and mission of generating revenue for the State of Texas through the responsible management and sale of entertaining lottery products.

- The Administration, Enforcement and Lottery Operations divisions do not conduct regular sample reviews of data obtained from their respective information systems and perform a manual calculation to ensure that the information systems are accurately capturing and calculating all required data. (Lottery Observation #1)
- Performance measures that are the result of average staff time or labor costs are based on obsolete time and effort surveys that should be reviewed and updated on a bi-annual basis. (Lottery Observation #2)
- Some written procedures require enhancement to capture the full processes involved in calculation of the respective performance measure. (Lottery Observation #3)
- Retailer surveys are not date stamped or logged when received to ensure that the surveys are accurately tracked and included with the appropriate reporting period. (Administration Division Observation #1)
- Inconsistencies exist with the written procedures versus the actual performance measure calculations. (Administration Division Observation #2)
- The Agency does not have written internal control documentation from its third party provider that tabulates retailer surveys. (Administration Division Observation #3)
- Support documentation for some performance measures are not printed in detail and maintained to enable data preservation and recalculations. (Enforcement Division Observation #1)
- Although management review of performance measure calculations is performed, the review is not consistently documented. (Enforcement Division Observation #2)



**CBOD Observation Summary:**

Internal audit obtained procedures and supporting documentation for each of CBOD’s performance measure audited. We conducted testing and process analysis to determine compliance with SAO guidelines. **Figure ES6** provides a summary of each of CBOD’s performance measure’s audit results compared to the audit objectives.

P.M. #	P.M. Type	Performance Measure Description	Detailed Written Procedures Exist	Supporting Documentation Maintained	Management Review of Reported Outcomes	P.M. Accurately Reported within 5%
<b>CBOD Performance Measures</b>						
2.1.3	OC	Percent of Complaints Referred for Disciplinary Action				
2.1.5	OC	Net Bingo Games Revenue Received by Charitable Organizations (Millions)	1			
2.1.6	OC	Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	1		2	3
2.1.1.1	OP	Number of Licenses Issued to Individuals and Organizations	1		2	
2.1.1.3	EF	Average Cost Per License Issued (Bingo)	1		2	4
2.1.3.1	OP	Number of Inspections Conducted			2	
2.1.3.3	OP	Number of Bingo Complaints Completed			2	
2.1.3.2	EF	Average Cost Per Bingo Complaint Completed			2	4
2.1.4.1	OP	Number of Days to Allocate Payments to Local Jurisdictions		5		



P.M. #	P.M. Type	Performance Measure Description	Detailed Written Procedures Exist	Supporting Documentation Maintained	Management Review of Reported Outcomes	P.M. Accurately Reported within 5%
2.1.4.3	OP	Number of Bingo Reports Processed	1		2	6

**Figure ES6 CBOD Performance Measure Audit Summary** The results of each performance measure’s audit objectives are summarized in this figure. Details of each exception can be found in the detailed opportunities section of this report.

Legend: OC = Outcome OP = Output EF = Efficiency

- Internal controls are effective and in compliance with SAO requirements; no opportunities noted
- Internal controls are not in compliance with SAO requirements; opportunity noted and discussed in this report
- Unable to recalculate performance measure due to lack of supporting documentation
- 1 – Written procedures exist but require enhancements to be comprehensive as required by the SAO
- 2 – A review is performed but the review is not documented by signature or date to validate completion
- 3 - Percent of Organizations who met the statutory charitable distributions requirement was unable to be recalculated because there was no basis established for the amount of statutory distribution required and support documents not maintained
- 4 –Measure was unable to be recalculated because the basis for the time percentage and staff salary was incorrect and support documents not maintained. The salary data and positions were updated in the last quarter of FY2015.
- 5 – Partial documentation is maintained
- 6 - Population could not be identified due to lack of supporting detailed documentation therefore the recalculation is based on available documentation

Internal audit obtained the reported information and supporting documentation for each of CBOD’s performance measure for the audit period. The supporting documentation was used to recalculate the measure using the stated methodology in the respective performance measure definition approved by the Legislative Budget Board. **Figure ES7** provides a comparison of the reported performance measure result to our recalculations.



G/O/S	Measure Type	Measure Description	Reported Through	Reported Performance Measure	Recalculated Performance Measure	Calculated Deviation from Stated Methodology
<b>CBOD Performance Measures</b>						
2.1.3	OC	Percent of Complaints Referred for Disciplinary Action	ABEST	FY2015 26.06%	FY2015 18.61%	(28.57%)
2.1.5	OC	Net Bingo Games Revenue Received by Charitable Organizations (Millions)	ABEST	FY2015 \$26.84	FY2015 \$26.997	.58%
2.1.6	OC	Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	ABEST	FY2015 97.19%	Not able to recalculate as detailed supporting documentation was not maintained	N/A
2.1.1.1	OP	Number of Licenses Issued to Individuals and Organizations	ABEST	FY2015 Q1 - 2,787 FY2015 Q2 - 2,678 FY2015 Q3 - 1,661 FY 2015 Q4 - 2,580	FY2015 Q1 - 2,787 FY2015 Q2 - 2,678 FY2015 Q3 - 1,661 FY2015 Q4 - 2,580	FY2015 Q1 - 0% FY2015 Q2 - 0% FY2015 Q3 - 0% FY2015 Q4 - 0%
2.1.1.3	EF	Average Cost Per License Issued (Bingo)	Performance Measure Workpaper	FY2015 Q1 - \$24.71 FY2015 Q2 - \$25.26 FY2015 Q3 - \$39.33 FY 2015 Q4 - \$27.99	Not able to recalculate as detailed supporting documentation was not maintained	N/A
2.1.3.1	OP	Number of Inspections Conducted	Performance Measure Workpaper	FY2015 Q1 - 61 FY2015 Q2 - 52 FY2015 Q3 - 67 FY 2015 Q4 - 110	FY2015 Q1 - 82 FY2015 Q2 - 90 FY2015 Q3 - 80 FY 2015 Q4 - 104	FY2015 Q1 - 34% FY2015 Q2 - 73% FY2015 Q3 - 19% FY2015 Q4 - (5%)
2.1.3.3	OP	Number of Bingo Complaints Completed	ABEST	FY2015 Q1 - 45 FY2015 Q2 - 38 FY2015 Q3 - 36 FY 2015 Q4 - 46	FY2015 Q1 - 66 * FY2015 Q2 - 76 * FY2015 Q3 - 49 * FY 2015 Q4 - 40 *	FY2015 Q1 - 47% FY2015 Q2 - 100% FY2015 Q3 - 36% FY2015 Q4 - (13%)
2.1.3.2	EF	Average Cost Per Bingo Complaint Completed	Performance Measure Workpaper	FY2015 Q1 - \$165.54 FY2015 Q2 - \$180.04 FY2015 Q3 - \$192.72 FY 2015 Q4 - \$175.66	Not able to recalculate as detailed supporting documentation was not maintained	N/A
2.1.4.1	OP	Number of Days to Allocate Payments to Local Jurisdictions	ABEST	FY2015 Q1 - 2 FY2015 Q2 - 5 FY2015 Q3 - 4 FY 2015 Q4 - 6	FY2015 Q1 - 2 FY2015 Q2 - 5 FY2015 Q3 - 4 FY2015 Q4 - 5	FY2015 Q1 - 0% FY2015 Q2 - 0% FY2015 Q3 - 0% FY2015 Q4 - (17%)



G/O/S	Measure Type	Measure Description	Reported Through	Reported Performance Measure	Recalculated Performance Measure	Calculated Deviation from Stated Methodology
2.1.4.3	OP	Number of Bingo Reports Processed	Performance Measure Workpaper	FY2015 Q1 - 1,364 FY2015 Q2 - 1,421 FY2015 Q3 - 1,098 FY 2015 Q4 - 1,292	FY2015 Q1 - 1,825 * FY2015 Q2 - 45 * FY2015 Q3 - 1,097 * FY2015 Q4 - 1,269 *	FY2015 Q1 - 34% FY2015 Q2 - (97%) FY2015 Q3 - 0% FY2015 Q4 - (2%)

**Figure ES7 CBOD Performance Measure Recalculation Summary** *TLC’s reports its key performance measures through ABEST and non-key performance measures through the bi-annual Legislative Appropriations Request (LAR). All performance measure results are provided to TLC’s Office of Controller on an annual basis at a minimum, regardless of the reporting mechanism.*

*\* Population could not be identified due to lack of supporting detailed documentation therefore the recalculation is based on available documentation*

Legend: OC = Outcome OP = Output EF = Efficiency

We noted the following observations. These observations do not have an impact on the CBOD’s operations and mission of providing authorized organizations the opportunity to raise funds for their charitable purposes by conducting bingo.

1. Five of the 10 performance measures were inaccurately reported (recalculation results deviated by greater than 5%) and three of the 10 could not be recalculated due to lack of supporting documentation. (CBOD Observation #1 Figure ES7)
2. Internal controls weaknesses exist in the performance measure calculation, reporting and review processes. (CBOD Observation #2):
  - a. CBOD does not conduct regular sample reviews of data obtained from the BOSS information system and perform a manual calculation to ensure that the information system is accurately capturing and calculating all required data.
  - b. Some staff responsible for calculating performance measure results does not have a comprehensive understanding of the data sources or meanings to provide reasonable assurance that the information reported is accurate and complete.

- c. There is not always documentation maintained to indicate that the performance measure calculations were reviewed and approved by Bingo management prior to forwarding to the Office of Controller for reporting into the ABEST system
- d. Support documentation for some performance measures are not printed in detail and maintained to enable data preservation and recalculations.
3. Some written procedures require enhancement to capture the full processes involved in calculation of the respective performance measure. (CBOD Observation #3)
4. Performance measures that are the result of average staff time or labor costs are based on obsolete time and effort surveys that should be reviewed and updated on a bi-annual basis. (CBOD Observation #4)
5. There is a conflict between a performance measure result and the Bingo Enabling Act. (CBOD #5)
6. The number of bingo reports processed is based on inaccurate supporting data. (CBOD observation #6)



## Detailed Observations and Recommendations – Lottery

### Lottery Observation #1: Sample Verification of Information System Data

The Lottery Operations Division, Administration Division and Enforcement do not conduct regular sample reviews of data obtained from their respective operation’s information systems (CAMP and Enterprise System) and perform a manual calculation to ensure that the information systems are accurately capturing and calculating all required performance measure data.

The Lottery Operations Division, Administration Division and Enforcement Division relies on their respective information systems to generate reports that show either components of the performance measure or provides the performance measure result. Some of the underlying data is manually entered into the respective information system while other data is imported from other systems.

Information systems change through updates and new processes. Sometimes these changes can inadvertently change formulas, add data fields or exclude data fields that had originally been included. Therefore, it is important for each division to perform sample reviews of information system reports used to for performance measure and manually recalculate the performance measure to ensure that the expected activities and calculations are occurring.

#### Recommendation:

Implement processes and procedures where the information system calculations for each performance measure are manually calculated from the original source data on a regular basis. This can be conducted on a sample basis and should provide reasonable assurance that each performance measure has been reviewed at least once each three to four years.

#### Management Response:

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. Revisions to procedures will include a review and verification process, such that the information system calculations for each performance measure will be manually calculated from the original source data to ensure the accurate capture of performance measure reporting data. This process will ensure that each performance measure is reviewed at least once every three to four years.

### Lottery Observation #2: Time and Labor Costs Based on Obsolete Studies

Performance measures that are the result of average staff time or labor costs are based on obsolete time and effort studies that should be reviewed and updated on a bi-annual basis when other performance measure review and update activities occur.

#### *N1.1.1.1 Average Cost Per Retailer Location License Issued (Lottery Operations Division)*

This performance measure is calculated based on the average time staff consumes in processing license applications and the cost of background investigations. The percentage of staff time allocated to processing licensing applications was determined by an internal survey that was conducted in 2012 and used for performance measures until FY2016. The Program Specialist is not on the 2012 survey report although the performance measure calculation for the years since the position was created shows 50 percent of the Specialist’s time allocated to issuing retailer location licenses. The survey was updated in October 2015 when the new



Lottery Service Portal was implemented. The new study results are used for FY2016 and forward.

*K.1.1.3.1 Average Cost Per Survey Issued (Administration Division)*

*Claim Center Administrative Costs:* The staff allocation is based on obsolete data. The schedule refers to Total Department Administration Cost for 1<sup>st</sup> Quarter FY14 versus FY15. This cost includes a calculation based on a survey of staff hours required to complete the Retailer Research Survey. The total of .75 hours per survey has been used since December 2007 based on a memo from the former Drawings and Validations Manager. In addition, the Department Administrative Cost is based on 5% to 10% of the management staff's salary. No support was provided for these allocation percentages.

Detailed support for calculations were not included on the schedule provided to the Research Coordinator by Lottery Operations as stated in the division's written procedures. The auditor was able to obtain the support from the Lottery Operations Division.

While using a flat percentage based upon a time and effort study is acceptable and common practice, the survey details, including how the percentages were derived and the number of work hours applicable for the calculation should be maintained for historical purposes and readily available for review.

Sound management practices provide for regular review and update of data used for time and efficiency studies. Additionally, the SAO requires detailed supporting records be maintained for the current year plus three fiscal years that allow for recalculation.

**Recommendation**

Bi-Annually review all performance measures based on time and efficiency studies for processing time and responsibilities included in the time allocations and update as needed. Maintain detailed documentation of the studies with the performance measure calculation package.

**Management Response**

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. Revisions to procedures will include updating the studies on staff time allocations used in performance measures on a bi-annual (every two years) basis or more frequently as needed. Detailed documentation of the studies will be maintained with the performance measure calculation package.

**Lottery Observation #3: Written Procedures**

In some instances the Agency's written procedures for respective performance measures lack comprehensive components to ensure processing consistency, information accuracy and compliance with SAO guidelines.

In accordance with State Auditor's Office (SAO) requirements, the *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012) states that the agency should clearly document all steps performed in the collection, calculation, review, and reporting of the performance measure data in its written policies and procedures. If the agency does not have policies and procedures for the performance measure process, the measure cannot receive a rating of "Certified."

The SAO looks to three types of controls that an agency should have in place for each performance measure:



1. Input controls - processes that an agency develops to provide reasonable assurance that data introduced into the performance measurement system is accurate.
2. Process controls - mechanisms that an agency develops to provide reasonable assurance that performance measurement systems use the appropriate information and follow procedures established for gathering data, calculating each measure, and providing explanations.
3. Review controls - procedures that an agency develops to verify that an activity occurred and was correctly calculated to provide reasonable assurance that accurate data is reported to ABEST and agency management.

Although written policies and procedures exist for each performance measure, the activities involved in the collection, calculation, and review of the measure are not always explained in a comprehensive manner to enable them to be used as complete instructions on how to prepare, calculate, review and retain the performance measure results. While certain steps or activities are also stated in the performance measures definitions, such definitions are not a substitute for written comprehensive procedures. Examples of activities missing from Lottery’s written procedures are summarized in **Figure L1**.

Division	PM #	PM Title	TLC Written Procedure	Input Controls Recommendation(s)	Process Control Recommendation(s)	Review Control Recommendation(s)
Lottery Operations	K 1.1.8.3	Dollar Amount of Advertising Budget Spent on Television Advertising (Millions)	LO-AP-014 Reporting Dollar Amount of Advertising Budget Spent on Television Output Measure	1. Expand the procedure to clarify the Office of Controller’s report is from the Agency’s financial information system (MIP).	1. Clarify the procedure to state that the current actual column total should be used in quarters 1, 2 and 3 and that the current actual column total and YTD Encumbrance total must be added together for the total advertising expenses for the 4 <sup>th</sup> quarter.	1. No revisions necessary.
Lottery Operations	K 1.1.1.1	Number of Retailer Business Locations Licensed	LO-RS-052 Reporting Number of Retailer Business Locations Licensed Output Measure	1. Expand the procedures to include the report title to generate and the specific parameters that must be entered.	1. Expand the procedures to state that the total licensed retailer’s number is the last number in the “count” column of the Number of Business Locations Licensed report.	1. No revisions necessary.
Lottery Operations	N 1.1.1.1	Average Cost per Retailer Location License Issued	LO-RS-057 Reporting the Average Cost per Retailer Location License Issued Efficiency Measure	1. List the Retailer Services departmental position titles that should be included in calculation of average cost for the performance measure. 2. Expand the procedures to state that the staff time allocation is based upon a survey performed on	No revisions necessary.	No revisions necessary.



Division	PM #	PM Title	TLC Written Procedure	Input Controls Recommendation(s)	Process Control Recommendation(s)	Review Control Recommendation(s)
				<p>a bi-annual basis.</p> <p>3. Modify the Selected Salaries Report to include position titles so that they can be readily matched to position titles indicated in the procedure.</p> <p>4. Expand procedures to include how invoices received after the reporting period are treated in subsequent reporting periods.</p>		
Enforcement Division	N1.1.4.3	Number of Lottery Background Investigations Completed	EN-025 Quarterly/End-of-Year Performance Measure Submission	<p>1. Procedure should be expanded to include printing and saving the detail reports to support the number of lottery background investigations completed.</p>	<p>1. Step 5.3.1 instructs the user to record the number of initial lottery background investigations completed within the quarter, and dividing that number by the number projected for the year. The procedure should remove the divide instructions as this is not a percentage number to be reported.</p> <p>2. Procedure should be expanded to include that all reports and supporting documents should be saved in accordance with document retention policies.</p>	<p>1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by signing a standard review form or via email authorization that is maintained with the files.</p>
Enforcement Division	N1.1.4.1	Average Time to Complete Lottery Investigations (Days)	EN-025 Quarterly/End-of-Year Performance Measure Submission	<p>1. Procedure should be expanded to include printing and saving the detail reports to support the number of lottery investigations completed and average time to complete.</p>	<p>1. Procedure should be expanded to include that all reports and supporting documents should be saved in accordance with document retention policies.</p>	<p>1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by signing a standard review</p>



Division	PM #	PM Title	TLC Written Procedure	Input Controls Recommendation(s)	Process Control Recommendation(s)	Review Control Recommendation(s)
						form or via email authorization that is maintained with the files.
Administration Division	K1.1.1	Percent of Retailers Satisfied with Lottery Commission	AD-SS-RE-006 Reporting Percent of Retailers Satisfied with Lottery Commission Outcome Measure	1. Procedure should be expanded to state that the monthly survey results are compiled by a third party and that the compilation results are the basis for the performance measure reporting numbers.	1. Procedure should be expanded to include that all reports and supporting documents should be saved in accordance with document retention policies.	1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by signing a standard review form or via email authorization that is maintained with the files.
Administration Division	K1.1.3.1	Average Cost Per Survey Issued	AD-SS-RE-005 Reporting Average Cost per Survey Issued Efficiency Measure	No revisions necessary.	1. Expand the procedures to include where the source, calculation and review documents are to be saved in accordance with document retention policies. (Name the path or folder where electronic documents are saved if they are electronically saved.)	1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by signing a standard review form or via email authorization that is maintained with the files.
Office of Controller	K1.1.6	State Revenue Received per Advertising Dollar	OC-BU-007 Calculation of Annual Outcome Performance Measures	1. Step 3B should clarify the parameters used to generate the expenditure/encumbrance reports in MIP (Account codes, etc.). 2. Step 3C should state the source of the annual accrued transfers report and the parameters used in	1. Step 3C states annual accrued transfers to the Foundation School Fund from all Lottery proceeds including unspent administrative funds. However, the total amount of transfers including to the Foundation School Fund, Texas Veterans Commission and Unclaimed	No Revisions Necessary



Division	PM #	PM Title	TLC Written Procedure	Input Controls Recommendation(s)	Process Control Recommendation(s)	Review Control Recommendation(s)
				generating the report.	Prizes is used in the calculation. The procedure should reflect the actual number that should be used.	
Office of Controller	N1.1.3	Percentage of Net Lottery Sales Spent on Agency Administration	OC-BU-007 Calculation of Annual Outcome Performance Measures	1. Step 3A should clarify the parameters used to generate the expenditure/encumbrance reports in MIP (Account codes, etc.)	1. Step 3A should clarify that the annual operating costs are derived from adding the totals of the YTD Actual and YTD Encumbrances columns. 2. Step 3D should clarify that the net annual sales revenue number is listed as Sub-total Sales revenue Year-to-Date column.	No Revisions Necessary

**Figure L1: Lottery Performance Measure Written Procedures Analysis Summary** *Some of Lottery’s written procedures related to performance measures require updates to reflect current information systems used and calculation processes.*

**Recommendation**

Review all written procedures related to performance measures on a bi-annual basis in conjunction with the review of performance measure definitions and reporting activities.

**Management Response**

Management concurs with the recommendation and the recommendation has been fully implemented. All procedures have been reviewed and updated to incorporate the recommendations.

**Administration Division**

**Administration Division Observation #1: Accounting for Source Documents for Performance Measure Calculation**

- K.1.1.1 Percent of Retailers Satisfied with Lottery Commission
- K.1.1.3.1 EF NC Average Cost Per Survey Issued

Retailer surveys collected for the Percent of Retailers Satisfied with the Lottery Commission are not date-stamped or logged when received in the mail to ensure that the correct batch of surveys are included in the performance measure calculation. For example, the surveys for the August survey tabulation included retailer visit dates during the months of May, June, July and August 2015. Thus the auditor could not rely on the visit date to determine when the survey was mailed to the Research Coordinator.

In addition, the monthly batch of surveys are sent to a third party for tabulation and analysis without a control count or document control number to verify that all surveys delivered were tabulated. The Research Coordinator receives the retailer surveys in the mail from the Lottery Operations Division’s Claim Center staff and delivers the surveys to the third party for analysis.



Also there is no receipt or print date on the following documents supporting the Average Cost per Survey performance measure: monthly Survey Report Overview, Claim Center Costs-Average Cost per Survey Issued, and Reproduction and Printing Analysis.

Information received through the mail should be date-stamped or logged when received and source documents sent to a third party should be counted upon distribution and return to ensure that all source documents are accounted for. **Figure AD1** presents an overview of the total surveys received per quarter.

Period	Total Surveys Received
Quarter 1	1,499
Quarter 2	1,345
Quarter 3	1,233
Quarter 4	958
<b>Total FY 2015</b>	<b>5,035</b>

**Figure AD1: Number of Surveys Received from Claim Center Staff**

Source: Research Coordinator's Performance Measure Calculation Spreadsheets

The State Auditor's Office states that input controls include written procedures and guidelines for the point where performance information is first recorded (e.g., applications, forms, and telephone complaints). Documents gathered at the initial point where performance information is recorded should be date-stamped or logged when they are received.

**Recommendation:**

Update procedures to include input controls such as date-stamping or logging all surveys received from Claim Center staff, delivered to the third party, and returned from the third party.

**Management Response:**

Management concurs with the recommendation and the recommendation has been fully implemented. All procedures have been reviewed and updated to incorporate the recommendations.

**Administration Division Observations #2: Performance Measure Actual Processes, Written Procedures and Supporting Documentation**

- K.1.1.1 Percent of Retailers Satisfied with Lottery Commission
- K.1.1.3.1 Average Cost Per Survey Issued

Inconsistencies exist with the written procedures versus the actual performance measure calculation as follows:

- *Quarterly Retailer Research Survey Data Tabulation:* Written procedure AD-SS-RE-005 Reporting Average Cost per Survey Issued Efficiency Measure Section 5 states that this factor is calculated by dividing the two-year data tabulation contract amount by eight. However, the actual performance measure calculation equals the current year costs divided by four (quarters).
- *Number of Newsletter Surveys:* Written procedure AD-SS-RE-005 Reporting Average Cost per Survey Issued Efficiency Measure Section 10 indicates that the total number of newsletter surveys distributed is equal to the number of active retailers for the given month plus the number of corporate headquarters office for the given month. However, the performance measure calculation only accounts for the number of active retailers. TLC updated this written procedure in the fall of 2015 that took effect for performance measure calculations after the audit period.
- *Supporting Records:* Written procedure AD-SS-RE-005 Reporting Average Cost per Survey Issued Efficiency Measure Section 14 and written procedure AD-SS-RE-006 Reporting of Retailers Satisfied with TLC Outcome Measure Section 8 indicates that



the Support Services, Research section maintains all data and calculations. Yet supporting records are maintained by other departments.

- 1) *Claim Center Administrative Costs:* Detailed support for calculations was not included on the schedule provided to the Research Coordinator by Lottery Operations.
- 2) *Claim Center Travel Costs:* Detailed support for the calculation is not included in the work papers provided to the Research Coordinator by the Lottery Operations. The auditor was able to obtain additional support from the Lottery Operations Division.
- 3) *Printing/Press Costs:*
  - o Detailed support for the monthly costs on the Reproduction and Printing Analysis schedule is not provided to the Research Coordinator. The auditor was able to obtain an example invoice from the Support Services Manager.
  - o The initial Reproduction and Printing Analysis schedule omitted August printing costs; an updated schedule was provided in response to the auditor’s request.
  - o Although the monthly Reproduction and Printing Analysis schedule shows printing/press costs each month, the Support Services Manager stated that since surveys are only included in newsletters each quarter, then only the costs for one month per quarter are included in the performance measure calculation. However, there is a footnote on the Press Costs spreadsheet that there is a retailer survey in one or more Roundup Editions during the quarter.

Sound management practices provide for regular review and update of written procedures to ensure that the actual processes are accurately reflected. Additionally, the SAO requires

detailed supporting records be maintained for the current year plus three fiscal years that allow for recalculation.

**Recommendation(s):**

- 1. Update procedures to identify the source of information and the specific supporting documents that should be maintained by the Administration Division according to the processes effective at the time of the performance measure calculations. It is not necessary to maintain multiple sets of source documents. If another Agency division maintains the original source documents, the Administration Division’s procedures should state the respective division that maintains the documents.
- 2. Determine the correct calculation methods to be used then review and update the process or the written procedures accordingly.
- 3. Review and update all spreadsheet clarification notes regarding the number of surveys per quarter.

**Management Response:**

Management concurs with the recommendation and the recommendation has been fully implemented. All procedures have been reviewed and updated to incorporate the recommendations.

**Administrating Division Observation #3: Third-Party Information for Retailer Survey Tabulations**

- K.1.1.1 Percent of Retailers Satisfied with Lottery Commission

An external third party entity tabulates and analyzes the retailer surveys collected for the Percent of Retailers Satisfied with the Lottery Commission performance measure. The entity has not provided written documentation of their control structure to ensure that the tabulation and analysis is complete and accurate.



The Research Coordinator performs occasional spot-checking of responses using the flat files of raw data received in comparison with the physical surveys. He also checks the incomplete survey reasons against the physical surveys because it bears on whether a survey was counted as completed. The Research Coordinator indicated that the only error found in the checking process is one instance in which a handful of surveys were processed twice, which was detected through comparison of the retailer numbers on each month's flat file.

The State Auditor's Office states that an agency should obtain written documentation of the control structure from third-party providers, when possible, and conduct inquiries concerning the third-party providers' operations to ensure that the information received is accurate.

**Recommendation:**

Notify the third party of the type of errors detected and obtain documentation of the third party's internal controls in the survey tabulation processes.

**Management Response:**

Management concurs with the recommendation and the recommendation has been fully implemented. All procedures have been reviewed and updated to incorporate the recommendations.

**Enforcement Division**

**Enforcement Division Observation #1: Performance Measure Detailed Supporting Documentation**

- N.1.1.4.3 Number of Lottery Background Investigations

- N.1.1.4.1 Average Time to Complete Lottery Investigations

The detailed CAMP reports required to support the performance measure calculations are not generated and maintained at the time of the performance measure calculation and cannot be reproduced for the following performance measures as the CAMP system is dynamic with continuous updates or additions and purges required to meet records retention requirements. For example, the number of lottery background investigations completed per the FY2015 1st quarter Enforcement Performance Measures summary report dated December 4, 2014 is 142 versus 116 on a subsequent report dated September 4, 2015.

**Figure EN1** presents a summary of the performance measure results as originally reported and the information listed on subsequent CAMP performance measure summary reports; the differences are highlighted in red.



Performance Metric	FY2015 Quarter 1		FY2015 Quarter 2		FY2015 Quarter 3		FY2015 Quarter 4	
	PM 12/2014	PM 09/2015	PM 03/2015	PM 09/2015	PM 06/2015	PM 01/2016	PM 09/2015	PM 01/2016
Number of Lottery Background Investigations Completed	142	116	129	127	128	111	129	120
Average Time to Complete Lottery Investigations (Days)	42.00	42.00	46.85	46.85	36.68	36.83	43.50	43.50
Number of Lottery Investigations Initiated	382	351	351	349	364	348	374	364
Number of Lottery Investigations Completed	229	229	215	215	225	224	254	254
Average Time to Complete Lottery Background Investigations (Days)	9.26	9.78	13.61	13.65	7.76	7.81	11.42	11.73

**Figure EN1: Summary of Enforcement Division Key Performance Measures** This table illustrates the impact that not printing and maintaining detailed reports from the CAMP system has on the ability to recalculate performance measure results in the same information for the same time period. The red numbers indicate performance measure results changed in subsequent months. Source: Quarterly CAMP Enforcement Performance Measures Report

Not generating detailed reports at the same time as the summary reports and before records are updated in the CAMP system causes the Agency to be non-compliant with supporting work paper and state records retention requirements. The State Auditor’s Office (SAO) and the State of Texas Records Retention Schedule, requires adequate supporting documentation be maintained for the current year plus three fiscal years to enable the recalculation of the reported results, respond to audits, as well as to other performance-related questions.

In addition, Enforcement Division staff was uncertain how to recalculate the performance measure for the average days to complete lottery investigations. The auditor explained the reports needed for the recalculation based on information in Exhibit to the procedures.

**Figure EN2** illustrates the discrepancies between the CAMP quarterly summary reports and the respective year-to-date (YTD) performance measure calculation. The performance measure result that is reported to the LBB through the Automated Budget and Evaluation System of Texas (ABEST) system is based on the spreadsheet calculation. An analysis of detailed data and comparison to the spreadsheet calculation results and the CAMP

summary report may have alerted the Division that the data was not being preserved in a manner to enable the same results for the respective performance measure calculations.

Performance Metric	Annual FY2015 Performance Measures		Target
	Per Performance Measures Spreadsheet Result	Per 4 <sup>th</sup> Quarter CAMP Report	Per Performance Measures Spreadsheet
Number of Lottery Background Investigations Completed	528 *	500	545
Average Time to Complete Lottery Investigations (Days)	42.25 *	41.22	60.00

**Figure EN2: Annual Performance Measure Reporting Differences FY2015 Quarterly CAMP summary reports are generated and then the pertinent data points are entered into a spreadsheet to calculate the year-to-date, cumulative metrics. A comparison of the CAMP reports to the performance measures spreadsheet identified discrepancies.**

\* Calculated average of amounts included on FY2015 Performance Measures Spreadsheet Source: Fourth Quarter CAMP Enforcement Performance Measures Report and FY2015 Performance Measures Spreadsheet



**Recommendation:**

The Enforcement Division Director should implement a process to print and maintain detailed reports in addition to the summary reports for calculating performance measures.

**Management Response:**

Management concurs with the recommendation and the recommendation has been fully implemented. All procedures have been reviewed and updated to incorporate the recommendations.

**Enforcement Division Observation #2: Management’s Review, Approval and Calculation Verification**

- N.1.1.4.3 Number of Lottery Background Investigations
- N.1.1.4.1 Average Time to Complete Lottery Investigations

The Enforcement Division does not maintain documentation to verify management’s review and approval of the accuracy and completeness of the performance measure calculations before submitting the performance measures spreadsheet to the Office of the Controller.

The current performance measure reporting process is that Enforcement Division designated staff generates the respective CAMP reports each quarter for data and then uses a spreadsheet to calculate the respective year-to-date performance metric. Once this is complete the staff person and director sit together to review and discuss the results and then email the required information to the Office of Controller. However, there is no physical or electronic sign-off to document this review and since the detailed reports are not printed and maintained, there are no supporting records for management to conduct a full analysis of the underlying data to identify trends or discrepancies.

The State Auditor’s Office (SAO) requires that a documented review of the measure calculations and summary documents should occur before performance measure information is reported. A supervisor or another individual other than the preparer or data entry personnel should review calculations of the performance measure information to help ensure that they are consistent with the measure definition and to check for mathematical errors. This review should be documented.

**Recommendation:**

Revise procedures to include documented review of performance measure results prior to submission to the Office of Controller. This review should be documented through a standard review form that is used by other departments (preferable) or by placing a copy of the email confirming that review was completed.

**Management Response:**

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. Revisions to procedures will include a consistent documented review of performance measure results within the Enforcement division through a standard review form.



## Detailed Opportunities and Recommendations – Charitable Bingo Operations Division (CBOD)

The Charitable Bingo Operations Division (CBOD) has undergone significant changes during the past 18 months. These include a complete turnover in the management team from the director, accounting and licensing manager and the audit manager. Additionally, the division designed and implemented a new information system from the ground up. Throughout this process, some front line staff has also left the division. With all of these changes, new management’s primary focus was on gaining an understanding of operations and addressing key issues facing the licensing activity. Now that operations have stabilized, the management team are looking at performance measures and updating the processes.

The observations noted below are a reflection of processes in place during prior management and staff and will be used as a tool to review and update all of their performance measures.

### CBOD Observation #1: Inaccurate Performance Measure Reporting

- N2.1.4.3 Number of Bingo Reports Processed (Inaccurate Results Reported)
- K2.1.3.3 Number of Bingo Complaints Completed (Inaccurate Results Reported)
- N2.1.3.1 Number of Inspections Conducted (Inaccurate Results Reported)
- K2.1.3 Percent of Complaints Referred for Disciplinary Actions (Inaccurate Results Reported)
- N2.1.1.3 Average Cost per License Issued (Unable to recalculate)
- N2.1.3.2 Average Cost Per Bingo Complaint Completed (Unable to recalculate)
- K2.1.6 Percentage of Organizations Who Meet the Statutory Charitable Distribution Requirement (Unable to recalculate)

Five of the 19 performance measures were inaccurately reported (recalculation results deviated by greater than 5%) and three of the 19 could not be recalculated due to lack of supporting documentation. (Figure E57 provides a comparison of the reported and recalculated performance measure results)

Calculation errors can be attributable to oversight; inconsistent application of the calculation methodology; dynamic source data, as the information used for reporting was not retained and did not match the source data provided at the time of our review; and lack of management review of reported results. Additionally written procedures detailing the collection, calculation, review, and reporting are not comprehensive and updated.

#### Recommendation:

The CBOD Director should implement procedures to ensure performance measure reporting accuracy. This includes assigning managers to review staff calculations and supporting data; ensuring staff are trained and understand the data supporting performance measures; and updating written procedures.

#### Management Response:

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. The CBOD is currently reviewing and updating procedures to ensure compliance with the Bingo Enabling Act (BEA), Bingo Administrative Rules (BAR) and State Auditor (SAO) requirements for performance measure management as applicable. Newly implemented procedures will require backup data be stored at the time performance



measures are prepared, the designated reviewer will quality check (QC) the performance measure against the stored data and sample test original source documents by manually checking/calculating a set number of figures and documenting the findings. The manager responsible for the performance measure will review the QC'd performance measure for accuracy and ensure the backup data is stored and protected from deletion prior to submittal for director approval. Division leadership will oversee the training of staff on the performance measures and procedures, and make certain the purpose behind the measures is understood.

### **CBOD Observation #2: Input, Process, and Review Controls**

Internal controls weaknesses exist in the performance measure calculation, reporting and review processes. These include:

- A. CBOD staff does not conduct regular sample reviews of data obtained from the BOSS and CAMP information systems and perform a manual calculation to ensure that the information systems are accurately capturing and calculating all required data.
- B. CBOD staff assigned to the performance measure calculation processes do not fully understand the performance measure data and rely upon information system generated reports to obtain summary numbers when performing the performance measure calculations.
- C. There is not always documentation maintained to indicate that the performance measure calculations were reviewed and approved by Bingo management prior to forwarding to the Office of Controller for reporting into the ABEST system.
- D. Eight of ten performance measures reviewed in the CBOD operations lack supporting detailed reports for FY2015 to verify the quarterly performance measures calculations.

CBOD relies on these two information systems to generate reports that show either components of the performance measure or provides the performance measure result. Some of the underlying data is manually entered into the respective information system while other data is imported from other systems. However, CBOD staff does not conduct regular sample reviews of data obtained from these information systems and perform a manual calculation to ensure that the information systems are accurately capturing and calculating all required data.

Information systems change through updates and new processes. Sometimes these changes can inadvertently change formulas, add data fields or exclude data fields that had originally been included. Therefore, it is important for CBOD staff to perform sample reviews of information system reports used to for performance measure and manually recalculate the performance measure to ensure that the expected activities and calculations are occurring.

In conducting our audit procedures we determined that some CBOD staff assigned to calculating performance measure results, do not fully understand the performance measure data and rely upon information system generated reports to obtain summary numbers when performing the performance measure calculations. Without a comprehensive understanding of the data, staff is not in a position to analyze results to determine accuracy, omissions or mistakes which could lead to inaccurate reporting.

Our review of performance measure supporting documents also showed that there is not always documentation maintained to indicate that the performance measure calculations were reviewed and approved by Bingo management prior to forwarding to the Office of Controller for reporting into the ABEST system.

Additionally, eight of ten performance measures reviewed in the CBOD operations lack supporting detailed reports for FY2015 to verify the quarterly performance measures calculations. Both the CAMP and BOSS systems are dynamic in nature in the constant updates are performed. Both systems have the ability to generate detailed reports which identifies the organizations which comprise the performance measures calculations, case



names/numbers regarding investigations and complaints; however, supporting documentation was not printed and maintained when the summary report was run. Thus there is no method to identify the performance measure population on that date. Furthermore, the written procedures do not specify the reports to be maintained as supporting work papers.

Section 3 Performance Measures and Supporting Data of the Texas Guide to Performance Measure Management, 2012 Edition, states the following: “Adequate documentation of primary data related to performance measures should be retained to support the reported performance. Additional documentation should be kept if a database does not contain an appropriate audit trail. These documents can be in electronic or hard copy form, but they should be accessible for review whether stored onsite or offsite.” Section 4 Performance Monitoring by Oversight Entities, requires summary documentation that shows the final

calculations that support the performance measure data reported in ABEST. Examples of this type of documentation are current computer printouts that reproduce summary calculations previously reported, archived computer printouts produced on the reporting date that document the summary calculations, quarterly summary calculation documentation, spreadsheets and manual calculation sheets.

According to the State of Texas Records Retention Schedule, performance measure documentation should be retained for the fiscal year reported plus three years in order to respond to audits, as well as to other performance-related questions. Therefore, CBOD is not in compliance with state requirements.

Figure B1 provides a summary of performance measures that were prepared, reviewed, approved and detailed supporting documents maintained.

P.M. #	Performance Measure Description	FY2015 Period	Prepared	Reviewed	Approved	Detailed Supporting Documents Maintained
2.1.3	Percent of Complaints Referred for Disciplinary Action	ANNUAL				
2.1.5	Net Bingo Games Revenue Received by Charitable Organizations (Millions)	ANNUAL				
2.1.6	Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	ANNUAL				
2.1.1.1	Number of Licenses Issued to Individuals and Organizations	Q4				
		Q3				



P.M. #	Performance Measure Description	FY2015 Period	Prepared	Reviewed	Approved	Detailed Supporting Documents Maintained
		Q2				
		Q1				
2.1.1.3	Average Cost Per License Issued	Q4	1			
		Q3				
		Q2				
		Q1				
2.1.3.1	Number of Inspections Conducted	Q4				
		Q3				
		Q2				
		Q1				
2.1.3.3	Number of Bingo Complaints Completed	Q4				
		Q3				
		Q2				
		Q1				
2.1.3.2	Average Cost Per Bingo Complaint Completed	Q4				



P.M. #	Performance Measure Description	FY2015 Period	Prepared	Reviewed	Approved	Detailed Supporting Documents Maintained
		Q3				
		Q2				
		Q1				
2.1.4.1	Number of Days to Allocate Payments to Local Jurisdictions	Q4				
		Q3				
		Q2				
		Q1				
2.1.4.3	Number of Bingo Reports Processed	Q4				
		Q4				
		Q3				
		Q2				
		Q1				



**Figure B1: Summary of Bingo Performance Measure Preparation, Review and Approval Steps** *Review of performance measure supporting document reflect inconsistent documentations of management review and approval prior to submission to the Office of Controller for entry into the ABEST system.*

Legend:



Evidence of review and approval was on file at the time of audit



No evidence of review or approval indicated on documentation

Without an effective internal control system, checks and balances may be omitted that would ensure the integrity and accuracy of the performance measure calculation. An agency can receive no better than a “certified with qualification” rating due to internal control weaknesses.

The SAO Guide states that the person responsible for calculating the performance measure data should understand the origin of the information and stay up to date regarding any applicable changes.

Additionally, the SAO Guide states that a documented review of the measure calculations and summary documents should occur before performance measure information is reported. A supervisor or another individual other than the preparer or data entry personnel should review calculations of the performance measure information to help ensure that they are consistent with the measure definition and to check for mathematical errors.

**Recommendations:**

- A. The CBOD Director should implement written processes and procedures to print and maintain specific hard copy summary and detailed reports used to support each respective performance measure calculation. CBOD staff should implement the revised processes and procedures immediately and periodically verify the accuracy of the performance measure calculation from the information by manually calculating performance measures from the original source data on a regular basis. This can be conducted on a sample basis and should provide reasonable assurance

that each performance measure has been reviewed at least once each three to four years.

- B. Provide training to all staff responsible for preparing, reviewing, and approving the performance measure calculation to ensure that staff understands all aspects involved in the calculation of the measure and the underlying data that supports the performance measure.
- C. Revise procedures to include documented review of each performance measure’s results prior to submission to the Office of Controller. This review should be documented through a standard review form that is used by other departments (preferable) or by placing a copy of the email confirming that review was completed.

**Management Response:**

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. The CBOD is working with Information Resources (IR) to change the way BOSS provides performance measure data. This change will include providing detailed backup to support the information contained in the performance measure. The backup data will be stored at the time performance measures are prepared. Revised procedures will accompany this change and be implemented immediately following the update. Division leadership will oversee the training of staff on the performance measures and procedures, and make certain the purpose behind the measures is understood. The different departments and sections within the division will be responsible for preparing the performance measures that relate to their department or section in accordance with the revised procedures. The designated auditor will QC the performance measure against the stored data and a sample of original source documents by manually checking/calculating a set number of figures and documenting the findings. The manager responsible for the



performance measure will review the QC'd performance measure for accuracy, and ensure the backup data is stored and protected from deletion. A documented review of each performance measure will be provided to the director for approval prior to submitting to the Office of the Controller.

**CBOD Observation #3: Written Procedures**

Some CBOD written procedures for respective performance measures lack comprehensive components to ensure processing consistency, information accuracy and compliance with SAO guidelines.

In accordance with State Auditor’s Office (SAO) requirements, the *Guide to Performance Measure Management* (State Auditor’s Office Report No. 12-333, March 2012) states that the agency should clearly document all steps performed in the collection, calculation, review, and reporting of the performance measure data in its written policies and procedures. If the agency does not have policies and procedures for the performance measure process, the measure cannot receive a rating of “Certified.”

The SAO looks to three types of controls that an agency should have in place for each performance measure:

1. Input controls - processes that an agency develops to provide reasonable assurance that data introduced into the performance measurement system is accurate.
2. Process controls - mechanisms that an agency develops to provide reasonable assurance that performance measurement systems use the appropriate information and follow procedures established for gathering data, calculating each measure, and providing explanations.
3. Review controls - procedures that an agency develops to verify that an activity occurred and was correctly calculated to provide reasonable assurance that accurate data is reported to ABEST and agency management.

Although written policies and procedures exist for each performance measure, the activities involved in the collection, calculation, and review of the measure are not always explained in a comprehensive manner to enable them to be used as complete instructions on how to prepare, calculate, review and retain the performance measure results. While certain steps or activities are also stated in the performance measures definitions, such definitions are not a substitute for written comprehensive procedures. Examples of activities missing from the written procedures are summarized in **Figure B2**.

Division	PM #	PM Title	TLC Written Procedure	Input Controls Recommendation(s)	Process Control Recommendation(s)	Review Control Recommendation(s)
Bingo	K2.1.5	Net Bingo Games Revenue Received by Charitable Organizations		1. Procedure should be updated to reflect the BOSS system processes involved in generating the report, printing the detailed report that shows the calculation breakdown, and calculation steps instead of the	1. Expand the procedures to include which documents to generate, where the source, calculation and review documents are to be saved in accordance with document retention policies. (Name the path or folder where	1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by



Division	PM #	PM Title	TLC Written Procedure	Input Controls Recommendation(s)	Process Control Recommendation(s)	Review Control Recommendation(s)
				former ACBS system.	electronic documents are saved.)	signing a standard review form or via email authorization that is maintained with the files.
Bingo	K2.1.6	Percent of Organizations Who Met the Statutory Charitable Distributions Requirement		1. Procedure should be updated to reflect the BOSS system processes involved in generating the report, printing the detailed report that shows the calculation breakdown, and calculation steps instead of the former ACBS system.	1. Expand the procedures to include which documents to generate, where the source, calculation and review documents are to be saved in accordance with document retention policies. (Name the path or folder where electronic documents are saved.)	1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by signing a standard review form or via email authorization that is maintained with the files.
Bingo	K2.1.1.1	Number of Licenses Issued to Individuals and Organizations		1. Procedure should be updated to reflect the BOSS system processes involved in generating the report, printing the detailed report that shows the calculation breakdown, and calculation steps instead of the former ACBS system.	1. Expand the procedures to include which documents to generate, where the source, calculation and review documents are to be saved in accordance with document retention policies. (Name the path or folder where electronic documents are saved.)	1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by signing a standard review form or via email authorization that is maintained with the files.
Bingo	N2.1.1.3	Average Cost per License Issued		1. Procedure should be updated to reflect the BOSS system processes involved in generating the report, printing the detailed report that shows the calculation breakdown, and calculation steps instead of the	1. Expand the procedures to include which documents to generate, where the source, calculation and review documents are to be saved in accordance with document retention policies. (Name the path or folder where	1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by



Division	PM #	PM Title	TLC Written Procedure	Input Controls Recommendation(s)	Process Control Recommendation(s)	Review Control Recommendation(s)
				former ACBS system.	electronic documents are saved.)	signing a standard review form or via email authorization that is maintained with the files.
Bingo	N2.1.4.3	Number of Bingo Reports Processed		1. Procedure should be updated to reflect the BOSS system processes involved in generating the report, printing the detailed report that shows the calculation breakdown, and calculation steps instead of the former ACBS system.	1. Expand the procedures to include which documents to generate, where the source, calculation and review documents are to be saved in accordance with document retention policies. (Name the path or folder where electronic documents are saved.)	1. Procedure should be expanded to include position title(s) of reviewers and requirement to document the review either by signing a standard review form or via email authorization that is maintained with the files.

**Figure B2: CBOD Written Procedures Summary** Some of CBOD’s written procedures related to performance measures require updates to reflect current information systems used and calculation processes.

**Recommendation:**

Review all written procedures related to performance measures on a bi-annual basis in conjunction with the review of performance measure definitions and reporting activities.

**Management Response:**

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. The CBOD is currently reviewing and updating all procedures as necessary. Division leadership is overseeing this process to ensure compliance with the State Auditor (SAO) requirements for performance measure management. Newly implemented

procedures will clearly document all steps in the collection of data, the method used for calculation and how the performance measure will be reviewed. Additionally, the procedures will require that backup data be stored at the time performance measures are prepared.

**CBOD Observation #4: Time and Labor Costs Based on Obsolete Studies**

- N2.1.1.3 Average Cost per License Issued
- N2.1.3.2 Average Cost Per Bingo Complaint Completed

Performance measures that are the result of average staff time or labor costs are based on obsolete time and effort studies that should be reviewed and updated on a bi-annual basis when other performance measure review and update activities occur.

While using a flat percentage based upon a time and effort study is acceptable and common practice, the survey details, including how the percentages were derived and the number of



work hours applicable for the calculation should be maintained for historical purposes and readily available for review.

Sound management practices provide for regular review and update of data used for time and efficiency studies. Additionally, the SAO requires detailed supporting records be maintained for the current year plus three fiscal years that allow for recalculation.

**Recommendation:**

Bi-Annually review all performance measures based on time and efficiency studies for processing time and responsibilities included in the time allocations and update as needed. Maintain detailed documentation of the studies with the performance measure calculation package.

**Management Response:**

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. Performance measures N2.1.1.3 and N2.1.3.2 have been updated with current employee salary information. This change occurred for the in the 2nd quarter of fiscal year 2016 as part of the performance review process of senior leadership. Procedures affecting these performance measures will be reviewed and updated to describe how calculations are performed. Documentation to support the salaries used in the performance measure calculation will be saved at the time the performance measure is prepared.

**CBOD Observation #5: Conflict Between Performance Measure Procedure, Definition and The Bingo Enabling Act**

- K.2.1.6 Percent of Organizations Who Met the Statutory Charitable Distribution Requirement

The performance measure procedure states “This measure reports the ratio (in percent) of organizations who met 35% minimum charitable distribution requirement.” Due to lack of supporting documentation (summary of organizations who met statutory charitable distribution requirement) and an actual method to perform a calculation this measure’s reported results could not be validated.

Additionally, the current procedure’s defined statutory requirement does not coincide with the Texas Bingo Enabling Act. Associated Sections of Bingo Enabling Act which relate to the performance measure include:

*Sec. 2001.457. REQUIRED DISBURSEMENTS TO CHARITY. (a) Before the end of each quarter, a licensed authorized organization shall disburse all of the organization's net proceeds from the preceding quarter, other than amounts retained under Section 2001.451, as provided by this subchapter.*

*Sec. 2001.451. ORGANIZATION BINGO ACCOUNTS. (a) A licensed authorized organization shall establish and maintain one regular checking account designated as the organization's "bingo account." The organization may maintain a separate interest-bearing savings account designated as the "bingo savings account."*

As a result, CBOD is not in compliance with state requirements stated in the Texas Bingo Enabling Act Section 2001.457.

**Recommendation:**

Update performance measure definition to comply with state requirements of the Texas Bingo Enabling Act Section 2001.457. This definition should clearly state the requirements of compliance (ex. Organization is in compliance when xx% of net proceeds are released to charities).



**Management Response:**

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. The CBOD is currently reviewing and updating all procedures as necessary. Division leadership is overseeing this process to ensure compliance with the Bingo Enabling Act (BEA), Bingo Administrative Rules BAR and State Auditor (SAO) requirements for performance measure management as applicable.

**CBOD Observation #6: Supporting Data Issues**

- N.2.1.4.3 Number of Bingo Reports Processed

The file of all quarterly reports processed during FY15 received from TLC’s Information resources showed inconsistent totals for quarterly reports issued to the results previously reported. Upon discussion with staff involved, the thinking is that the inconsistencies may be an implication of a data migration issue resulting from the system implementation (ACBS to BOSS).

Bingo quarterly reports are a primary source of data within the division. Most of these reports are manually data entered by Bingo staff. However, since backup documentation was not printed and maintained at the time the performance measure output was run, there is no way of determining which organizations quarterly report was part of this population.

CBOD does not have any written procedures for quarterly report data entry and only recently began conducting consistent reviews of quarterly reports to ensure data entry accuracy and completeness. We sampled 30 quarterly reports to verify accuracy of data entry. Results of sample include:

- 74% - Documentation does agree to the data reported

- 3% - Partial documentation /unable to validate charitable distributions due to lack of summary, also unable to validate prize fees paid
  - Triple City Bingo Unit – San Juan – 20152
- 3% - Documentation differs from supporting data
  - Foe Aerie 2999 New Braunfels – 20143
    - Charitable distribution summary shows \$1,974 and data from IR shows \$1,771 –
    - Prize fee check and quarterly report show \$1,598.95 and data from IR shows \$1,607
- 20% - Non-regular operators data and documentation did not match at all
  - Leakey Lions Club – 20151
  - Our Lady of Guadalupe Catholic Church – 20152
  - Our Lady of Guadalupe Church – 20144
  - St Clare Catholic Church – 20143
  - St Luke Catholic Church – 20144
  - We All Can Academy – 20143

These examples show that there is a need to ensure data completeness and accuracy.

**Recommendations:**

- 1) Work with Information Resources to ensure that ACBS data was accurately integrated into the BOSS system during implementation.
- 2) Continue performing regular reviews of quarterly reports to verify data accuracy and completeness.

**Management Response:**

Management concurs with the recommendation and anticipates a completion date of August 31, 2016. The CBOD is undergoing a project to reconcile accounting ledgers. This project began in



January 2015 and is scheduled to end in July 2016. The scope of this project includes data from BOSS, ACBS and CBS. At the conclusion of the project, the ledgers of active licensees in BOSS will be reconciled.

Additionally, the CBOD is strongly advocating for the electronic submission of quarterly reports and supplements. Several licensees already submit reports electronically. This means that there will not be hardcopy quarterly reports to retain. The data will be stored in BOSS. Electronic filers are able to see their submitted reports via the Bingo Service Portal (BSP) to verify the accuracy of what they reported. BSP is the licensee's user interface to view their account data in BOSS. Procedures are being reviewed and updated to coincide with the electronic submittal of documents. Newly implemented procedures will require that the Quarterly Report Detail spreadsheet (a report in Excel format generated out of BOSS with the capability of detailing all quarterly reports submitted for a specific time frame as of the date the report is run) be stored as backup data at the time performance measures are prepared. The procedure will note the following:

- Licensees who fail to file quarterly reports will have an estimated bingo liability,
- The snapshot data in the stored Quarterly Report Detail spreadsheet may differ from the data in the same report pulled at a later date due to audit adjustments, amended quarterly reports, or submittal of original quarterly reports by previous non-filers.
- Quarterly reports submitted via mail, email, fax or hand delivered will be uploaded to the document repository.
- It will note which reports were filed online via BSP.