

TEXAS LOTTERY COMMISSION

INTERNAL AUDIT



INTERNAL AUDIT

ANNUAL REPORT

For the Fiscal Year Ended August 31, 2012

IA #13-001

October 2012

October 31, 2012

Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor
Commissioners of the Texas Lottery Commission

Attached is the annual report of the Internal Audit Division of the Texas Lottery Commission. This report fulfills the requirements set forth in the Texas Internal Auditing Act (the Act). As mandated in the Act, the State Auditor's Office prescribes the content. This report has been prepared in accordance with the State Auditor's content requirements and is current through October 31, 2012.

The work performed by Internal Audit is a key element in assuring accountability, economy, efficiency, and effectiveness within the Texas Lottery Commission operations. The Internal Audit Division is committed to being a trusted, independent and objective resource and providing quality internal auditing services. We will aggressively pursue projects in fiscal year 2013 to continue our assistance to the Texas Lottery Commission in improving controls, reducing risk, and enhancing agency operations.

Please contact me at (512) 344-5488 if you desire further information about the contents of this report or would like to request additional copies.

Sincerely,

Signature on File

Catherine A. Melvin, CIA, CPA
Director, Internal Audit Division

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I. Fiscal Year 2012 Internal Audit Activity Plan

For the Period September 2011 – August 2012

	Initial Allocated Hours
<u>Internal Audit Assurance and Consulting/Advisory Activities</u>	
1. Transfers to the State	900
2. Financial Audit Assistance	500
3. Follow Up Audits of Previously Conducted Audit Work.....	900
4. Closeout of Fiscal Year 2011 Projects	380
5. Reserved for Special Projects and Requests	2,335
SUBTOTAL	5,015
<u>Statutorily Required Internal Audit Activities</u>	
6. Auditing Standards and Statutory Requirements	680
7. Coordination of External Audits of the Agency	330
SUBTOTAL	1010
<u>Administrative Internal Audit Activities</u>	
8. Administration of the Internal Audit Function	300
SUBTOTAL	300
Fiscal Year 2012 TOTAL BUDGETED HOURS	6,325

Fiscal Year 2012 Internal Audit Activity Plan

The Internal Audit Division issued IA #12-009 “*An Internal Audit of the Retailer Sales Incentive Program*” in May 2012. As of October 31, 2012, open projects included Follow-Up Review of Previously Conducted Audits, an Internal Audit of Transfers to the State, and an Internal Audit of the Prize Payment Account.

II. External Quality Assurance Review

The Internal Audit Division underwent a comprehensive external quality assurance review in accordance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, the U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Gov't. Code Chapter 2102). The review was performed by an independent, qualified reviewer – Mr. Dennis D. O'Neal. The resulting report was issued October 2009.

October 25, 2009

Ms. Catherine Melvin, CIA, CPA
Director of Internal Audit
Texas Lottery Commission
Austin, Texas 78701

Dear Ms. Melvin:

Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Texas Lottery Commission Internal Audit Department fully complies with the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*, the United States General Accountability Office *Governmental Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).

This opinion, which is the highest of the three possible ratings, means that the Internal Audit Department has in place structures, policies, procedures and processes that comply with the requirements of the professional standards. The Department is independent and objective and the staff is qualified, proficient, and knowledgeable in the areas they are required to audit. Audits are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated properly. The Department is also well managed internally.

The Department has effective relationships with the Board and is well respected and supported by management. Interviews conducted during the review indicate that management considers Internal Audit a useful part of overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

The objective, scope, and methodology of the review, along with recommendations to further improve the Internal Audit Department are attached. I would like to thank you and your staff for your cooperation during this review.

Sincerely,



Dennis D. O'Neal

Attachment

III. Consulting Engagements and Non-audit Services Completed

Internal Audit participated in various agency committees or workgroups during fiscal year 2012, and provided ongoing consultative assistance to management. Our participation and services were limited to an advisory basis only; ensuring both auditor independence and objectivity were not compromised. Such activity did not result in reports or management letters during fiscal year 2012.

IV. Internal Audit Activity Plan for Fiscal Year 2013

The Fiscal Year 2012 Internal Audit Activity Plan is anticipated to be submitted for approval by the Commissioners in the November 8, 2012 Commission meeting.

V. External Audit Services

The following represent external audit services that were procured by the Texas Lottery Commission or were ongoing in fiscal year 2012.

Audit/Review	Auditor
Drawings Audit	Davila Buschhorn & Associates
FY11 Annual Financial Audit	Maxwell Locke and Ritter LLP
FY11 Mega Millions Agreed Upon Procedures	Maxwell Locke and Ritter LLP
FY11 Powerball Agreed Upon Procedures	Maxwell Locke and Ritter LLP
FY11 Power Play Agreed Upon Procedures	Maxwell Locke and Ritter LLP
FY12 Annual Financial Audit	Maxwell Locke and Ritter LLP
FY12 Mega Millions Agreed Upon Procedures	Maxwell Locke and Ritter LLP
FY12 Megaplier Agreed Upon Procedures	Maxwell Locke and Ritter LLP
FY12 Powerball Agreed Upon Procedures	Maxwell Locke and Ritter LLP
FY12 Power Play Agreed Upon Procedures	Maxwell Locke and Ritter LLP
Biennial Security Study	Delehanty Consulting

VI. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of:

- 1) **Fraud Reporting.** Article IX, Section 7.10, the General Appropriations Act (81st Legislature).

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

- 2) **Texas Government Code, Section 321.022.**

The Internal Audit Director reports any incidents of which she is made aware to the agency's designated SAO contact manager and/or through the SAO's online reporting portal. Currently, the agency is revising policy to reflect that the Executive Director will be responsible for reporting any such incidents to the SAO.

STATE OF TEXAS
TEXAS LOTTERY COMMISSION

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For the Fiscal Year Ended August 31, 2012

IA #13-001

OCTOBER 2012

This report has been provided to the following:

Ms. Mary Ann Williamson, Chair
Mr. J. Winston Krause, Commissioner
Ms. Cynthia Tauss Delgado, Commissioner

**This report is also provided to the following for appropriate distribution in accordance
with Government Code 2102.009:**

Mr. Jonathan Hurst, Director, Governor's Office of Budget, Planning and Policy
Ms. Ursula Parks, Acting Director, Legislative Budget Board
Mr. Ken Levine, Director, Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor