McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

INTERNAL AUDIT SERVICES

STATUS REPORT TO THE COMMISSIONERS

OCTOBER 3, 2018

INFORMATION ITEM – NO ACTION REQUIRED

Internal Audit Activities

Internal Audit Services' activities during this period (August 1, 2018 through September 15, 2018) include:

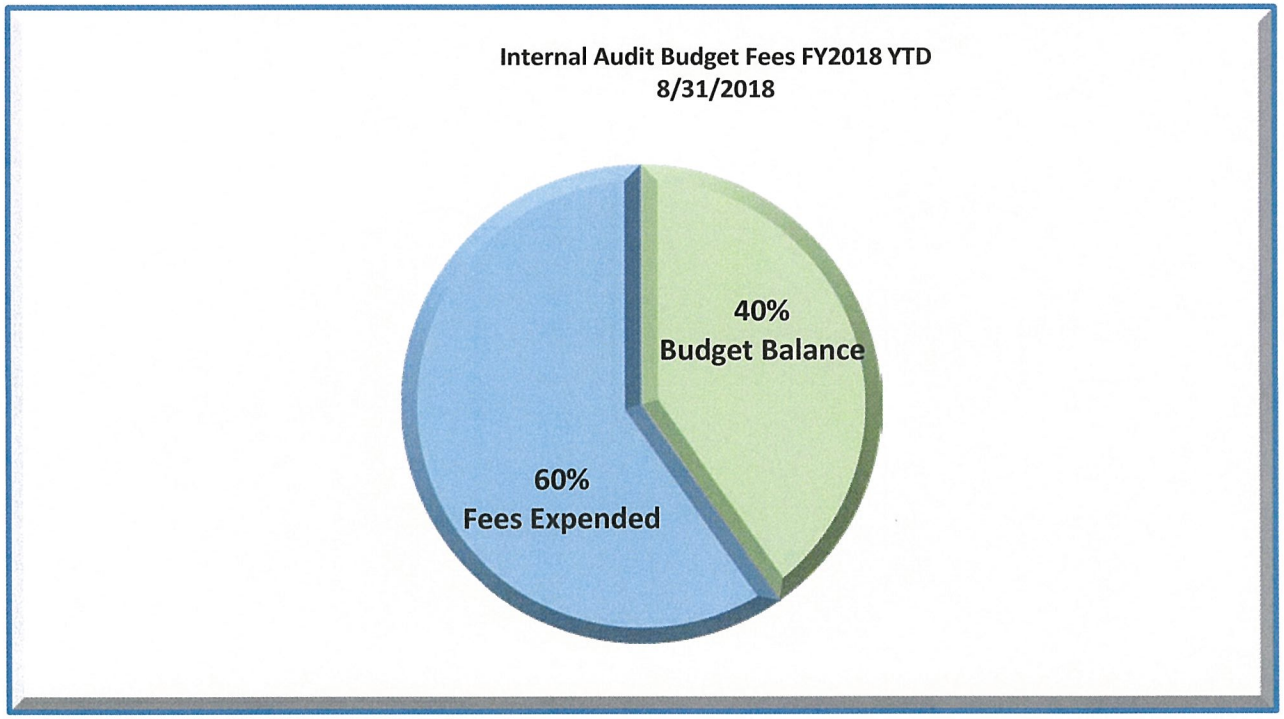
- Completed the following audits:
  - Drawing Equipment Audit
  - Scratch Ticker Game Closing Audit
  - Mail Room Audit
- Prepared the FY 2018 Annual Internal Audit Report
- Commenced Copy Center Audit
- Completed audit planning for the following audits:
  - HB2578 Implementation
  - Drawings Studio
  - Game Changes

Fiscal Year 2018 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	CBOD Education Program	✓	✓	✓	✓	✓	✓
2	Personal Identifiable Information Handling	✓	✓	In-Progress			
3	Social Responsibility	✓	✓	✓	✓	✓	
4	Drawing Equipment Maintenance	✓	✓	✓	✓	✓	
5	Unclaimed Prize Processes	✓	✓	✓	✓	✓	✓
6	Instant Game Closing Processes	✓	✓	✓	✓	✓	
7	Main and Mail Room Processes	✓	✓	✓	✓	✓	
8	Follow-Up On Prior Audit Findings	♻	♻	♻	♻	♻	♻
9	Monitor of Fraud/Complaint Hotlines Lines	♻	♻	♻	♻	♻	♻
10	External Audit / Review Assistance	♻	♻	♻	♻	♻	♻
11	Update Risk Assessment & Develop 2019 Audit Plan	✓	✓	✓	✓	✓	✓
12	Annual Audit Report	✓	✓	✓	✓	✓	✓
13	CBOD Communications	♻	♻	♻	♻	♻	♻

Legend: Not Started, In-Progress, Completed, Continuous

FY 2018 Internal Audit Budget as of August 31, 2018



MJ is cognizant of the importance of managing the approved hours and budget. As such we are diligent about staying within the estimated hours per audit and activity. There may be instances where audits/activities are over or under estimated hours and we will adjust the audit plan budget accordingly to stay within the total approved budget.

Legend: Not Started In-Progress Completed Continuous

Fiscal Year 2019 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	Copy Center Controls and Monitoring Process	Completed	In-Progress				
2	Centralize Audit Report Findings and Monitoring	Completed	In-Progress				
3	HB2578 Implementation	Completed					
4	Game Changes	Completed					
5	Drawings Studio	Not Started					
6	Cyber Security Program	Not Started					
7	Retailer Incentive Program	Not Started					
8	Lottery Operations Customer Service	Not Started					
9	Follow-Up On Prior Audit Findings	Continuous	Continuous				
10	Bingo Follow-Up Activities	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
11	Information System User Access	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
12	Monitor of Fraud/Complaint Hotlines Lines	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
13	External Audit / Review Assistance	Continuous	Continuous	Continuous	Continuous	Continuous	Continuous
14	Update Risk Assessment & Develop 2020 Audit Plan	Continuous	Continuous				
15	Annual Audit Report	Not Started					

MJ McConnell & Jones LLP
Certified Public Accountants

Anticipated Activities Next Period

- Issue the Personal Identifiable Information Handling Audit Report
- Complete Copy Center Audit
- Commence Drawings Studio Audit
- Complete the Centralized Audit Findings Data Base
- Commence the HB2578 Implementation Audit
- Commence Audit of Cash 5 Game Changes

McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

INTERNAL AUDIT SERVICES

AUDIT REPORT SUMMARY

OCTOBER 3, 2018

ACTION ITEM

Drawing Equipment Maintenance Audit

Audit	Audit Rating	Number of Observations
18-004 Drawing Equipment Maintenance	Effective	0

Internal controls over the agency's drawing equipment maintenance processes are effective and working as intended.

Processes Reviewed:

- Drawing machine settings after the maintenance process.
- Business continuity processes related to the maintenance of drawing equipment and ball sets.
- Maintenance of the drawing machines.
- Maintenance and care of the ball sets.

Key Agency Risks:

- Potential non-compliance the agency's requirements, applicable regulatory and industry requirements.
- Drawing machines and ball sets may not be adequately secured during the maintenance process.

Scratch Ticket Game Closing Processes Audit

Audit	Audit Rating	Number of Observations
18-006 Scratch Ticket Game Closing Process	Effective	0

Internal controls over the agency's scratch ticket game closing processes are effective and working as intended.

Processes Reviewed:

- The management framework supporting the scratch ticket game closing process.
- The business processes related to the closing of instant games.

Key Agency Risks:

- Damaged reputation due to:
  - Closing games before the large prizes are won.
  - Not closing games after the large prizes are won.
  - Not notifying the public that the game is closing and the claim submission deadlines.

Mailroom Processes Audit

Audit	Audit Rating	Number of Observations
18-008 Mailroom Processes Audit	Some Improvement Needed	2

Internal controls over the agency's mailroom processes require some improvement.

Processes Reviewed:

- Incoming and outgoing mail handling.
- Remittance room mail handling.
- Document retention process.
- Cash handling processes.

Summary of Recommendations:

- CBOD should strengthen internal controls and segregation of duties between payment processing and accounting.
- CBOD should revise their records retention schedule and practices to ensure that the original are maintained for six months after being scanned into the agency's document repository system.

Social Responsibility Program Audit

Audit	Audit Rating	Number of Observations
18-009 Social Responsibility Program	Best Practices	0

Internal controls over the agency's social responsibility program are best practices and working as intended.

Processes Reviewed:

- Responsible gaming program.
- Employment hiring practices.
- Environmental program.
- Employee charitable contribution programs.

Key Agency Risks:

- Damaged reputation due to:
  - Public disagreement over the agency's business practices.
  - Misappropriated charitable donations.

FY 2018 Annual Internal Audit Report

The FY 2018 Annual Internal Audit Report will be provided prior to the October 3, 3018 Commission meeting.

The Annual Internal Audit Report is a required by the Texas Internal Audit Act and the contents are prescribed by the State Auditor's Office.

Action

Internal Audit requests your approval of the following audit reports:

1. Drawing Equipment Maintenance Processes
2. Scratch Ticket Game Closing Processes
3. Mailroom Processes
4. Social Responsibility Program
5. FY 2018 Annual Internal Audit Report