





**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

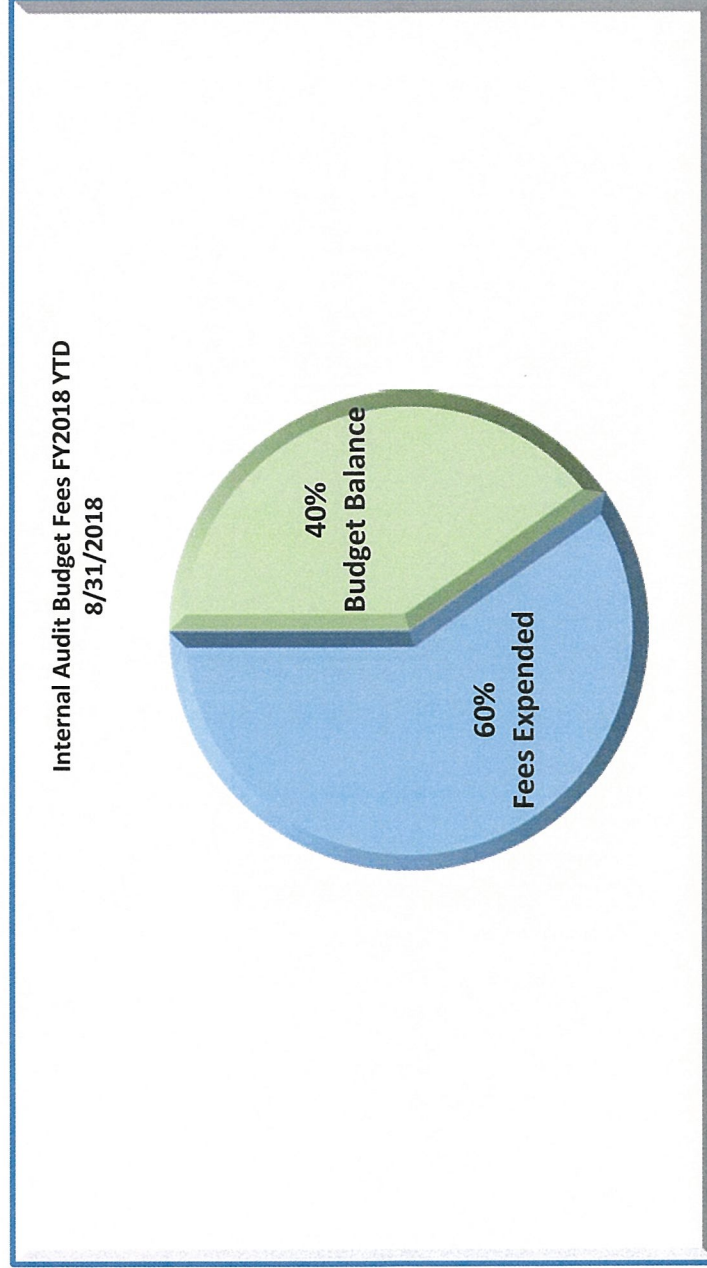
# Fiscal Year 2018 Internal Audit Plan Status

Activity #	Audit	Planning	Fieldwork	Draft Report	Mgmt. Comments	Final Report	Issued
1	CBOD Education Program	✓	✓	✓	✓	✓	✓
2	Personal Identifiable Information Handling	✓	✓	🔍			
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						
2	Centralize Audit Report Findings and Monitoring						
3	HB2578 Implementation						
4	Game Changes						
5	Drawings Studio						
6	Cyber Security Program						
7	Retailer Incentive Program						
8	Lottery Operations Customer Service						
9	Follow-Up On Prior Audit Findings						
10	Bingo Follow-Up Activities						
11	Information System User Access						
12	Monitor of Fraud/Complaint Hotlines Lines						
13	External Audit / Review Assistance						
14	Update Risk Assessment & Develop 2020 Audit Plan						
15	Annual Audit Report						



## 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

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial statements. This includes not only sales and purchases but also expenses, income, and any other financial activity.

The second part of the document provides a detailed breakdown of the accounting cycle. It outlines the ten steps involved in the process, from identifying the accounting entity to preparing financial statements. Each step is explained in detail, with examples provided to illustrate the concepts.

The third part of the document focuses on the classification of accounts. It discusses the different types of accounts, such as assets, liabilities, equity, revenue, and expense accounts, and how they are used to record and summarize financial transactions.

The fourth part of the document covers the process of journalizing and posting. It explains how transactions are recorded in the journal and then posted to the ledger accounts. This process is essential for maintaining the double-entry system and ensuring that the books are balanced.

The fifth part of the document discusses the preparation of financial statements. It outlines the steps involved in calculating the net income, preparing the income statement, balance sheet, and statement of cash flows. It also provides examples of how these statements are prepared and presented.

The sixth part of the document covers the closing process. It explains how the temporary accounts (revenue, expense, and dividend accounts) are closed to the permanent accounts (assets, liabilities, and equity accounts) at the end of the accounting period. This process is necessary to reset the temporary accounts for the next period and to update the equity account.

The seventh part of the document discusses the importance of adjusting entries. It explains how these entries are used to record accruals, deferrals, and other adjustments that are necessary to ensure that the financial statements are accurate and reflect the true financial position of the company.

The eighth part of the document covers the process of reconciling the books. It explains how the company's records are compared to external records, such as bank statements and supplier invoices, to identify and correct any discrepancies. This process is essential for maintaining the accuracy of the financial records.

The ninth part of the document discusses the importance of internal controls. It outlines the various measures that can be implemented to prevent and detect errors and fraud, such as segregation of duties, authorization requirements, and regular audits.

The tenth part of the document covers the final steps of the accounting process, including the preparation of the final financial statements and the closing of the books. It emphasizes the importance of accuracy and transparency in all aspects of the accounting process.





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# 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