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State Auditor

A Follow-up Audit Report on  
**The Charitable Bingo Operations Division at the  
Texas Lottery Commission**

September 24, 2012

Members of the Legislative Audit Committee:

The Texas Lottery Commission (Agency) has fully or substantially implemented 14 (93 percent) of 15 recommendations that auditors selected for follow-up from *An Audit Report on the Charitable Bingo Operations Division at the Texas Lottery Commission* (State Auditor's Office Report No. 11-002, September 2010). (See text boxes for background information on the prior audit report and implementation status definitions.) Its implementation of the remaining recommendation was incomplete/ ongoing.

Of the 14 recommendations fully or substantially implemented:

- The Agency fully implemented two recommendations regarding increasing the scope and number of financial audits it performs at bingo halls.
- The Agency fully or substantially implemented two recommendations regarding policies and procedures to ensure that its licensing files were complete.
- The Agency fully or substantially implemented ten recommendations regarding strengthening controls over its Automated Charitable Bingo System (ACBS).

While the Agency has made significant progress in implementing most of the prior audit recommendations, it has not limited access rights to ACBS for five programmers who have the ability to edit and delete records.

Auditors communicated other, less significant issues to the Agency's management separately in writing.

#### Background Information

In September 2010, the State Auditor's Office issued *An Audit Report on the Charitable Bingo Operations Division at the Texas Lottery Commission* (State Auditor's Office Report No. 11-002).

Auditors selected all 15 of the recommendations in that report for follow-up based on Agency management's responses to the recommendations, the Agency's subsequent self-reported recommendation implementation status and implementation date, and the level of risk.

#### Implementation Status Definitions

**Fully Implemented** - Successful development and use of a process, system, or policy to implement a prior recommendation.

**Substantially Implemented** - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

**Incomplete/Ongoing** - Ongoing development of a process, system, or policy to address a prior recommendation.

**Not Implemented** - Lack of a formal process, system, or policy to address a prior recommendation.

Table 1 provides additional details on the Agency's implementation of prior State Auditor's Office recommendations.

Table 1

Status of Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by the Agency	Implementation Status as Determined by Auditors	Auditor Comments
1	The Agency should increase its financial monitoring visits at bingo halls to review financial information and documentation that supports the quarterly reports the bingo halls submit to the Agency.	Fully Implemented	Fully Implemented	The Agency implemented an audit charter and financial audit program that addressed the recommendation. Additionally, it increased the number of financial reviews it performs using its financial audit program.
2	The Agency should consider using a risk-based methodology to select bingo halls for on-site monitoring reviews. In addition to complaints, in its methodology for selecting bingo halls for on-site monitoring reviews, the Agency should consider analyzing factors such as bingo halls' history of compliance and length of time between the Agency's monitoring reviews.	Fully Implemented	Fully Implemented	The Agency adopted a risk-based methodology that considers complaints, history of bingo halls' compliance, and length of time between monitoring reviews, among other factors.
3	The Agency should consistently maintain documentation demonstrating that it complied with state laws and its policies and procedures for lessors and conductors.	Fully Implemented	Substantially Implemented	The Agency successfully developed a process and policies to maintain required documentation; however, errors that auditors identified during testing indicated that the Agency's use of that process and policies was inconsistent. Those errors were as follows: <ul style="list-style-type: none"> <li>▪ Two (11 percent) of 19 lessor licensing files tested did not contain the required playing schedule.</li> <li>▪ Two (13 percent) of 15 conductor licensing files tested did not contain required documentation that the organization was in good standing with the Office of the Secretary of State.</li> <li>▪ One (8 percent) of 12 conductor licensing files tested did not contain the required playing schedule.</li> </ul>
4	The Agency should implement a monitoring process to ensure compliance with the rent requirement in Texas Occupations Code, Section 2001.406(a).	Fully Implemented	Fully Implemented	The Agency implemented a monitoring process to ensure compliance with Texas Occupations Code, Section 2001.406(a).
5	The Agency should use the functionality within ACBS to flag amounts that are estimates that the Agency entered to enable the Agency to identify which amounts are actual amounts that a licensee has submitted.	Fully Implemented	Fully Implemented	The Agency consistently flagged estimates in ACBS as of June 2012.
6	The Agency should strengthen ACBS access controls.	Not Implemented	Fully Implemented	The Agency enhanced password requirements in ACBS for maximum password age and password complexity in May 2012.

Status of Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by the Agency	Implementation Status as Determined by Auditors	Auditor Comments
7	The Agency should conduct regular reviews of user access to ACBS.	Fully Implemented	Fully Implemented	The Agency conducted regular reviews of user access to ACBS. Auditors verified that the Agency completed ACBS user access reviews in August 2011, February 2012, and May 2012.
8	The Agency should appropriately limit ACBS access to individuals based on their job responsibilities.	Fully Implemented	Fully Implemented	The Agency appropriately limited ACBS access to individuals based on their job responsibilities.
9	The Agency should assign a unique user ID to each user who accesses the ACBS database.	Fully Implemented	Fully Implemented	As of June 2012, the Agency had assigned a unique user ID to each user with access to the ACBS database.
10	The Agency should ensure that test accounts cannot access ACBS production data and disable ACBS test accounts after testing is complete.	Fully Implemented	Fully Implemented	As of June 2012, the Agency did not use test accounts in the ACBS production environment; the Agency had disabled the test accounts identified in the prior audit.
11	The Agency should limit programmers' access rights to the ACBS production environment to read-only access.	Fully Implemented	Incomplete/ Ongoing	As of June 2012, the Agency still allowed five programmers to have read/write capabilities in the ACBS production environment.
12	The Agency should enable audit trails in ACBS.	Not Implemented	Fully Implemented	The Agency decided not to enable audit trail functionality in ACBS, but it logs individual transactions that it identifies as critical. Auditors consider those logs to adequately compensate for audit trail functionality in ACBS.
13	The Agency should cease giving users the option to bypass ACBS edit checks during data entry.	Fully Implemented	Fully Implemented	<p>Since the prior audit, the Agency identified a business need for giving users the ability to bypass one ACBS edit check. However, the Agency added processes that would assist in identifying resulting errors. Those processes included:</p> <ul style="list-style-type: none"> <li>▪ A formal review process for data entry.</li> <li>▪ Submission of a letter to lessors and conductors that are flagged as erroneous.</li> <li>▪ Exception reports to assist in identifying potential errors related to bypassing edit checks.</li> </ul> <p>Given those additional processes, auditors concluded that the Agency had addressed the risk of erroneous data it enters into ACBS and includes in quarterly reports.</p>
14	The Agency should use the full capabilities of ACBS to produce exception reports that would help ensure compliance with the requirements of House Bill 1474 (81st Legislature).	Fully Implemented	Substantially Implemented	The Agency implemented exception reports for bingo conductors and units to help ensure compliance with the requirements of House Bill 1474 (81st Legislature); however, it is not using exception reports for bingo lessors.

Status of Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by the Agency	Implementation Status as Determined by Auditors	Auditor Comments
15	The Agency should ensure that the Charitable Bingo Operations Division updates its disaster recovery plan annually.	Fully Implemented	Fully Implemented	The Agency tested the disaster recovery plan annually and updated its business recovery plan in compliance with Title 1, Texas Administrative Code, Section 202.24.

**Recommendations**

The Agency should:

- Limit programmers’ access rights to the ACBS production environment to read-only access.
- Continue improving its processes related to compliance with laws, policies, and procedures for lessors and conductors and using ACBS exception reports.

The Agency agreed with the above recommendations and its management’s response is in the attachment to this letter.

Sincerely,

John Keel, CPA  
 State Auditor

Attachment

- cc: Members of the Texas Lottery Commission  
       Ms. Mary Ann Williamson, Chair  
       Ms. Cynthia Delgado  
       Mr. J. Winston Krause  
       Mr. Gary Grief, Executive Director, Texas Lottery Commission



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# Attachment

Section 1

## **Objective, Scope, and Methodology**

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### **Objective**

The objective of this audit was to determine the implementation status of prior State Auditor's Office recommendations and evaluate whether management has taken corrective actions to address selected recommendations in *An Audit Report on the Charitable Bingo Operations Division at the Texas Lottery Commission* (State Auditor's Office Report No. 11-002, September 2010).

### **Scope**

The scope of this audit included reviewing the status of the Texas Lottery Commission's (Agency) implementation of the recommendations related to licensing documentation for conductor and lessor licenses; audit services reports; and the security, accuracy, and reliability of data in the Automated Charitable Bingo System (ACBS). Auditors considered information reported from December 2010 through June 2012.

### **Methodology**

The audit methodology included identifying and collecting information on the implementation of the prior audit recommendations. To determine the implementation status of the prior audit recommendations, auditors conducted interviews, reviewed Agency policies and procedures, and performed selected tests and procedures related to the financial monitoring of the bingo halls and ACBS.

Auditors assessed the reliability of Agency data associated with ACBS by (1) conducting a walkthrough of the system, (2) reviewing query language used to generate the access to ACBS, (3) analyzing key data elements for completeness and reasonableness, (4) interviewing Charitable Bingo Operations Division employees knowledgeable about the data, and (5) reviewing a prior State Auditor's Office report and working papers related to information technology. Auditors determined that the ACBS data was sufficiently reliable for the purpose of this audit.

Information collected and reviewed included the following:

- *An Audit Report on the Charitable Bingo Operations Division at the Texas Lottery Commission* (State Auditor's Office Report No. 11-002, September 2010).

- The Agency's policies and procedures related to auditing financial information provided by the bingo halls, licensing lessors and conductors, and securing information systems.
- The Agency's license application files for lessors and conductors.
- The Agency's monitoring documentation for access to ACBS.
- The Agency's disaster recovery plan and documentation related to the testing of that plan.

Procedures and tests conducted included the following:

- Interviewed Agency personnel.
- Reviewed the Agency's data entry process for quarterly reports that licensees submit.
- Tested access to ACBS application and its database.
- Reviewed the Agency's audit process for financial data submitted by bingo halls.
- Conducted a walkthrough of the access authorization process for ACBS.
- Reviewed the Agency's disaster recovery plan.

Criteria used included the following:

- *An Audit Report on the Charitable Bingo Operations Division at the Texas Lottery Commission* (State Auditor's Office Report No. 11-002, September 2010).
- Texas Occupations Code, Chapter 2001 (Bingo Enabling Act).
- Title 1, Texas Administrative Code, Chapter 202.
- Agency policies and procedures related to charitable bingo operations.
- House Bill 1474 (81st Legislature, Regular Session).

## Project Information

Audit fieldwork was conducted from May 2012 through June 2012. We conducted this performance audit in accordance with 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Kels Farmer, MBA, CISA (Project Manager)
- Anca Pinchas, CPA, CIDA, CISA (Assistant Project Manager)
- Mark A. Cavazos
- Amy Cheesman
- Lindsay R. Johnson, CGAP
- Brian Jones, CGAP
- Darcy Melton, MAcy
- Mario Perez
- Brenda Zamarripa, CGAP
- Michelle Ann Duncan Feller, CIA, CPA (Quality Control Reviewer)
- Ralph McClendon, CISSP, CCP, CISA (Audit Manager)

## Management's Responses

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***Limit programmers' access rights to the ACBS production environment to read-only access.***

*As of June 2012, the Agency still allowed five programmers to have read/write capabilities in the ACBS production environment.*

*The agency agrees. The agency will limit programmers' access rights to the ACBS production environment to read-only.*

***Continue improving its processes related to compliance with laws, policies, and procedures for lessors and conductors and using ACBS exception reports.***

*The Agency implemented exception reports for bingo conductors and units to help ensure compliance with the requirements of House Bill 1474 (81st Legislature); however, it is not using exception reports for bingo lessors.*

*The agency agrees. The written procedures have been finalized. These procedures will document the analysis and process performed on the Lessor exception report currently in place.*

*Individual Responsible: Taxpayer Services Manager*

*Implementation Date: Completed*