



TEXAS LOTTERY COMMISSION

Internal Audit Services

AN ADVISORY REVIEW OF

Charitable Bingo Operations Division - Licensing

Report No. 25-001

January 16, 2025

FINAL

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel may impact these risks and internal controls in ways that this report cannot anticipate.

Report Highlights

Why Was This Review Conducted?

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Texas Lottery Commission (TLC), performed this advisory engagement as part of the approved FY 2024 Annual Internal Audit Plan.

Business Objectives and Scope

Establish and maintain a management control structure to ensure TLC Charitable Bingo Operations Division (CBOD) complies with the Bingo Enabling Act (BEA) and Administrative Rules (Rules). This ensures bingo operations are conducted fairly, and proceeds are used for authorized purposes.

The advisory scope period was September 1, 2023, to August 31, 2024.

Advisory Focus

1. Staffing Structure,
2. Compliance with Regulatory Requirements,
3. New licenses,
4. Renewals,
5. Fees,
6. Training,
7. Document Retention, and
8. Automation and the Bingo Operating Service System (BOSS).

Advisory Conclusions

As an advisory engagement, our focus was to identify potential gaps in controls and processes that may impact CBOD licensing's ability to achieve its business objectives.

Over the past three (3) years, CBOD has enhanced the efficiency of its licensing process by addressing obstacles through organizational changes and improved communications, particularly with the compliance and legal team.

Our review of the licensing function did not identify any gaps in the controls or processes. We identified some manual processes that could be made more efficient with automation. Specifically, the Bingo Service Portal (BSP) lacks templates of some forms and has no mechanism available to convert PDFs into readable text in order to upload data files directly into BOSS. An upgrade to the BOSS is planned, pending funding, with requirements already developed.

Additionally, no segregation of duties control gaps were identified due to the BOSS' roles-based access.

What Did We Recommend?

No gaps in controls or processes were noted, therefore no recommendations were made.

We identified two (2) opportunities to improve current CBOD Licensing operations. An improvement opportunity is when an internal control or process is effective as designed but can be enhanced.

Opportunities for Improvement

1. Update the CBOD operational procedures to remove duplicate process descriptions and include other department's processes by reference.
2. Complete the Processing a Request for Administrative Hold procedure document.

*Thank
you!*

We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

Introduction

We performed this advisory engagement as part of the approved FY 2024 Annual Internal Audit Plan. The Global Internal Audit Standards, a component of the revised 2024 International Standards for the Professional Practices of Internal Auditing (IPPF), states the nature and scope of advisory services may be subject to agreement with the party requesting the services. The nature of this advisory engagement was to review recent changes to the licensing processes, to address obstacles and improve efficiencies made by the Texas Lottery Commission's (TLC) Charitable Bingo Operations Division (CBOD).

Objective, Conclusion, and Internal Control Rating

CBOD's licensing business objective is to establish and maintain management control structure to ensure compliance with the Bingo Enabling Act (BEA) and Administrative Rules (Rules). This ensures bingo operations are conducted fairly, and proceeds are used for authorized purposes.

The objective of this advisory engagement was to assess CBOD's licensing function for potential control gaps, for control weaknesses, and to ensure the management control structure in place is able to mitigate risks that may impact CBOD's ability to achieve their business objectives.

We focused on the following areas:

1. Staffing Structure,
2. Compliance with Regulatory Requirements,
3. New licenses,
4. Renewals,
5. Fees,
6. Training,
7. Document Retention, and
8. Automation of the Bingo Operating Service System (BOSS) system.

The scope period for this engagement was September 1, 2023, through August 31, 2024.

Conclusion

Our review of the CBOD licensing function did not identify any gaps in controls or processes. We did note some opportunities for improvement for manual processes. These opportunities were also highlighted in the most recent Sunset Advisory Commission Staff Report from the 2024-25 89th Legislature and/or previously identified by CBOD. Specifically, we noted the following:

The Bingo Service Portal (BSP) offers many forms which allow for the upload of data files directly into the Bingo BOSS. However, there are other forms that must be addressed manually. Additionally, no mechanism is available to convert PDFs into readable text in order to upload data files directly into BOSS. The roles-based access within BOSS is configured to provide segregation of duties control.

The Deputy Director indicated that an upgrade to BOSS is planned and is currently awaiting funding. The requirements for the forthcoming system have been developed.

A comprehensive review of CBOD licensing's performance measures over the past three years reveals significant improvements. The Deputy Director, who assumed the role in November of FY2022, identified several factors contributing to the performance regression in FY2023 and subsequent improvements in FY2024.

FY2023 regression factors include:

- The LBB Targets for FY2022 and FY2023 were established by the previous management.
- Staff turnover between FY2022 and FY2023.

- Increased expenses related to salaries and postage.

FY2024 improvement factors include:

- A thorough review of processing procedures to ensure the quality of work.
- Organizational Changes.
- Improved communications.

Exhibits 1 through 4 present the Year-Over-Year Performance Comparison (YOYPC) for key measures within the CBOD.

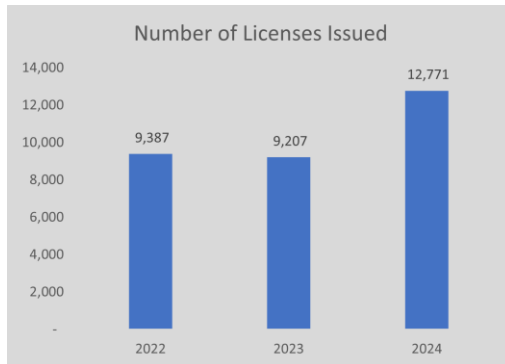


Exhibit 1 – YOYPC Licenses Issued

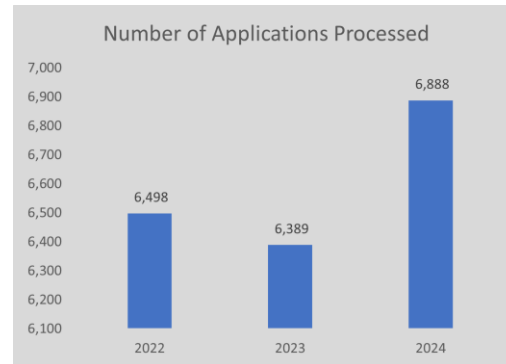


Exhibit 2 – YOYPC Applications Processed

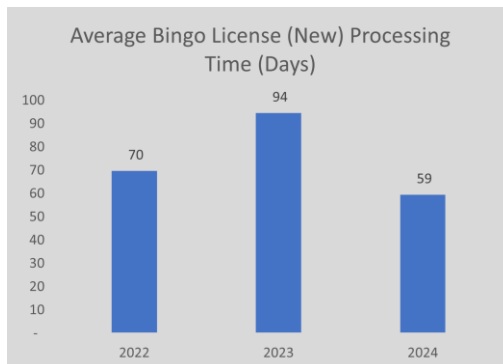


Exhibit 3 – YOYPC New License Processing Time

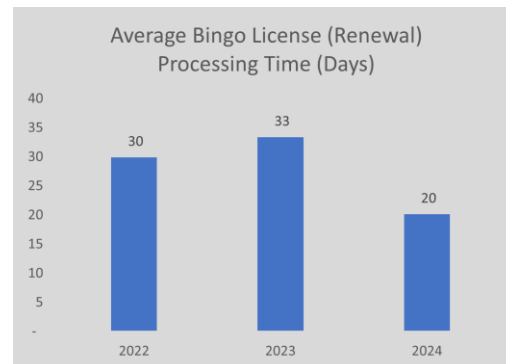


Exhibit 4 – YOYPC Renewal License Processing Time

Background

CBOD is responsible for regulating and overseeing all aspects of licensed charitable bingo activities in Texas. The division ensures that all bingo operations comply with the BEA and Rules. This regulatory framework is designed to ensure games are conducted fairly and the proceeds are used for authorized purposes.

CBOD's licensing function is a critical component of its regulatory responsibilities. This function involves the issuance of original, renewal, temporary, and management of licenses for authorized organizations, lessors, manufacturers, distributors, and unit accounting. CBOD ensures that all applications go through a determination process to verify eligibility and compliance with the BEA and Rules. Additionally, the licensing function processes applications for individuals applying to be registered bingo workers.

CBOD issues licenses to various entities involved in bingo activities. These include:

- Conductors: Organizations that conduct bingo games.
- Lessors: Entities that lease premises for bingo games.
- Bingo Hall Workers: Individuals working in bingo halls.
- Manufacturers and Distributors: Companies that produce and distribute bingo-related equipment and supplies.

License Fees are charged for Manufacturers, Distributors and Lessors. The Licensing and Accounting Section is responsible for monitoring these fees. They record quarterly reports and payments to ensure proper fees and taxes are paid to the state.

Training of chairpersons for each regular conductor is another vital aspect of CBOD's operations. All Bingo Chairpersons must complete the Bingo Training Program, which is available through the Bingo Services Portal (BSP). CBOD provides the structured training program for conductors to ensure they are well-versed in the regulations and best practices, thereby promoting compliance with the BEA. The training includes multiple video modules covering various aspects of conducting a bingo session, such as preparation, management, and compliance. Participants must complete the modules and receive a certificate of completion, which is required for their role as a regular conductor.

Net proceeds from bingo activities are another significant focus for CBOD. The net proceeds are the remaining funds after deducting all allowable expenses from the gross receipts of bingo operations. CBOD monitors and manages the net proceeds generated by conductors, which are organizations that conduct bingo games. These proceeds must be used for charitable purposes as mandated by the BEA.

Exhibit 5 provides the CBOD organizational structure and Licensing reporting lines during the start of our engagement.

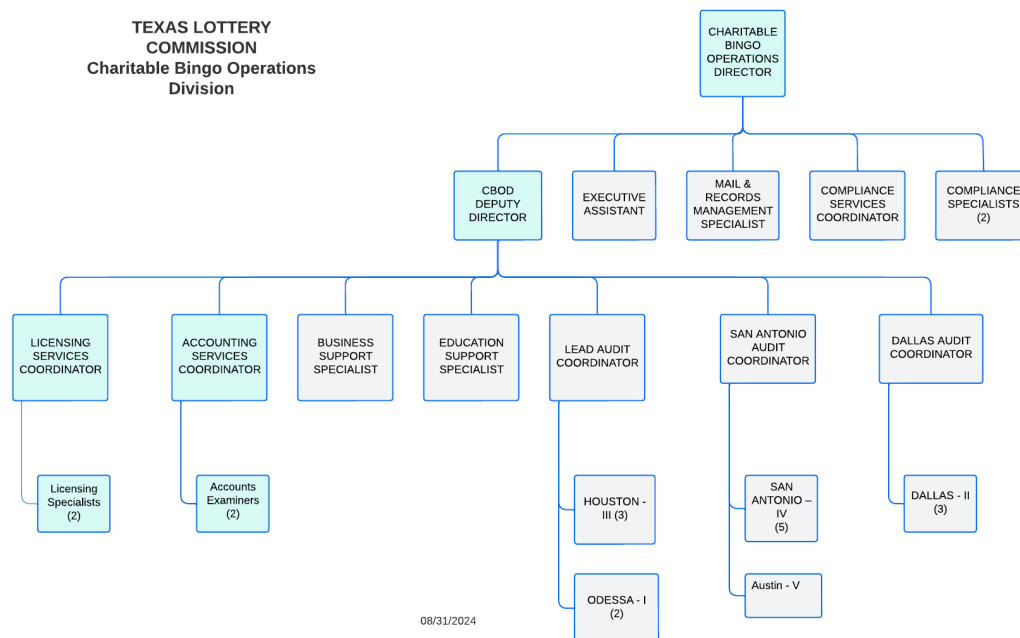


Exhibit 5 – TLC Charitable Bingo Operations Division Organization Structure as of 08/31/2024.

Exhibit 6 illustrates the CBOD organizational structure and the updated Licensing reporting lines as of November 2024. This update consolidates the Licensing Services and Accounting Services under a single coordinator.

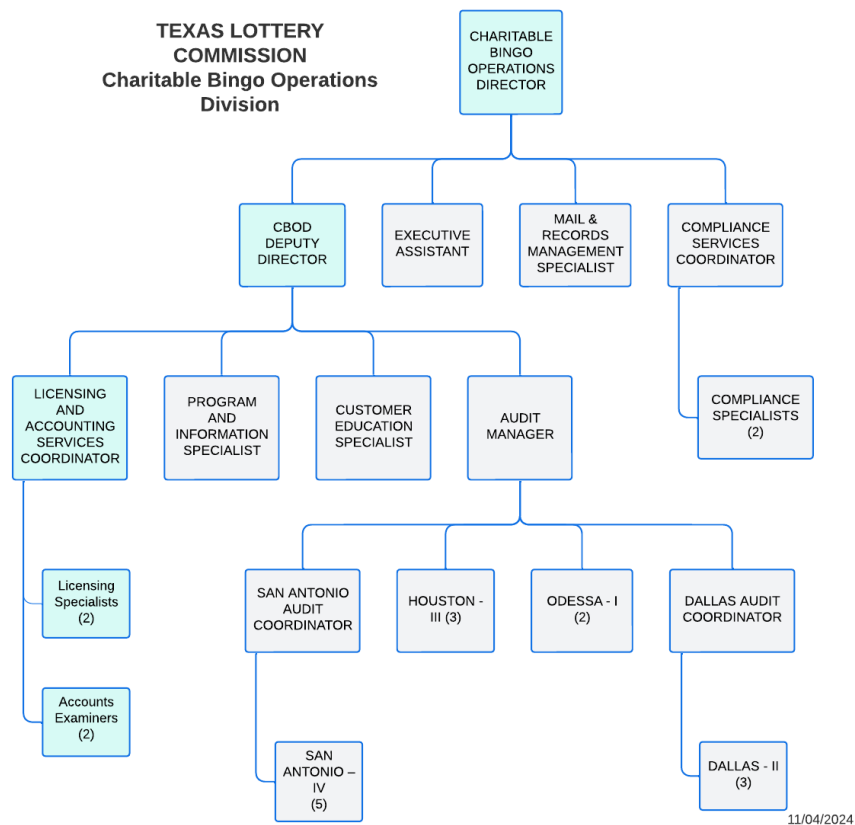


Exhibit 6 – TLC Charitable Bingo Operations Division Organization Structure as of 11/04/2024.

Detailed Business Objective, Focus Area, and Internal Control Discussion

This section of the report provides discussion on the advisory focus areas, grouped by business objective. Each business objective includes the definition, management controls in place, and the control rating based upon the effectiveness of controls and processes in place.

Business Objective #1: Governance and Compliance

The purpose of governance is to establish a foundation for an organization's internal control system, ensuring its objectives are met. This foundation is built on integrity and ethical values. Governance involves active oversight, setting strategic objectives, and establishing a clear organizational structure. It also ensures that personnel have the necessary skills and knowledge to perform their duties and are held accountable for their actions.

Control Rating: Generally Effective

Business Objective:

To have a management control structure in place with processes to ensure that CBOD licenses:

- are issued promptly and exclusively to eligible entities,
- are charged fees accurately as well as collected,
- comply with the BEA and Texas Administrative Code Chapter 402 requirements.

Criteria used for Review	<ul style="list-style-type: none"> • Texas Occupations Code Title 13, Chapter 2001 Bingo (Bingo Enabling Act) • Texas Administrative Code §402 Charitable Bingo Operations Division • COSO Internal Controls-Integrated Framework
Identified Management Controls in Place	<ul style="list-style-type: none"> • Established roles and assigned responsibilities for ensuring appropriate staffing levels and segregation of duties. • The role-based configuration within BOSS ensures that segregation of duties is maintained between departments. This includes the charging of license fees, the collection of these fees, and the recording of transactions to the account, encompassing any adjustments and refunds. Audit trail functionality is utilized within BOSS. • Written policies and procedures in place which establish roles and assigned responsibilities for ensuring compliance with regulatory requirements.

Conclusion:

A management control structure has been established to ensure oversight and effective management within the CBOD. No gaps in controls or processes were noted.

Opportunities for Improvement

We noted the operating procedures exhibited minor inconsistencies and duplication of documented process steps. These discrepancies could benefit from updates to enhance clarity. Specifically:

- CB-LI-006 Processing a Lessor's Original Application discusses Copy Center's responsibilities for scanning document but omits CBOD Remittance Room Staff responsibility for receiving/marketing applications similar to the procedure for conductor licenses.
- CB-LI-025 Processing Manufacturer Original Application contains a brief description of the process between Licensing and Accounting but does not reference the detailed accounting procedure for further clarification.
- CB-LI-040 Processing an Original Application for Distributor's License does not establish the Accounting Section's responsibility for addressing accounting related edits in BOSS.
- CB-LI-027 Processing a Manufacturer's Renewal Application refers to the Licensing Specialist (LS) and Licensing Services Coordinator (LSC) positions, which should be corrected to LS and LSC, respectively.
- CB-LI-027 Processing a Manufacturer's Renewal Application procedures assume that an application and supplemental documentation are already in BOSS, as opposed to the other renewal application policies.
- CB-LI-027 Processing a Manufacturer's Renewal Application does not refer to accounting's responsibilities for addressing accounting edits in BOSS.
- CB-LI-032 Processing a Distributor's Renewal Application does not refer to accounting's responsibilities for addressing accounting edits in BOSS.

Opportunities Recommendation

We recommend CBOD update the aforementioned procedures to remove duplicate process descriptions and include other department's processes by reference.

Business Objective #2: Operations

The purpose of operations is to ensure that an organization effectively and efficiently achieves its objectives. This involves the implementation of processes and activities that align with the organization's strategic goals. Operations focus on optimizing resources, maintaining high-quality standards, and fostering continuous

improvement. It also ensures that risks are managed appropriately, and that the organization can adapt to changing conditions and demands.

Control Rating: Generally Effective

Business Objective:

To implement and maintain a management control structure with processes and controls to ensure strict compliance with BEA requirements, while maintaining the highest standards of accuracy and efficiency.

Criteria used for Review	<ul style="list-style-type: none"> • Texas Occupations Code Title 13, Chapter 2001 Bingo (Bingo Enabling Act) • Texas Administrative Code §402 Charitable Bingo Operations Division • COSO Internal Controls-Integrated Framework
Identified Management Controls in Place	<ul style="list-style-type: none"> • Written policies and procedures in place include defined roles and responsibilities to ensure that the following processes are in compliance with BEA requirements: <ul style="list-style-type: none"> ○ Review of applications, ○ Processing of licenses, and ○ Administration of hold cases.

Conclusion:

A management control structure has been established to ensure oversight and effective management within the CBOD. No gaps in controls or processes were noted.

CBOD has established defined roles and responsibilities to ensure that applications are reviewed, licenses are processed, and administrative hold cases are addressed in strict compliance with BEA requirements. Written policies and procedures provide clear guidelines for the review and processing of license applications. These policies and procedures have been designed to ensure consistency and compliance with the regulatory requirements outlined in the BEA and Texas Administrative Code Chapter 402, mitigating the risk of errors while enhancing the overall efficiency of the process. The procedures are regularly reviewed and updated to reflect any changes in regulatory requirements or operational needs.

CBOD personnel are instructed to follow these established policies and procedures meticulously. This ensures that all applications, licenses, and administrative hold cases are processed accurately and efficiently, in accordance with the defined standards.

Opportunity for Improvement: The Processing a Request for Administrative Hold procedure document is incomplete as of the time of this review.

Opportunities Recommendation: Complete the Processing a Request for Administrative Hold procedure document.

Business Objective #3: Reporting and Monitoring

The purpose of reporting and monitoring is to provide accurate and timely information that supports decision-making and accountability within an organization. This involves the systematic collection, analysis, and dissemination of data related to the organization's performance and compliance with established standards. Effective reporting ensures transparency and helps identify areas for improvement, while monitoring activities to track progress and detect potential issues early. By maintaining robust reporting and monitoring systems, the organization can ensure that it remains aligned with its strategic objectives and can respond proactively to emerging risks and opportunities.

Control Rating: Generally Effective

Business Objective:

To implement and maintain a management control structure with processes to ensure the accurate and timely reporting of net proceeds by bingo conductors, and the completion of Chairperson (i.e., conductor) training, thereby maintaining the integrity and reliability of TLC's operational data.

Criteria	<ul style="list-style-type: none"> • Texas Occupations Code Title 13, Chapter 2001 Bingo (Bingo Enabling Act) • Texas Administrative Code §402 Charitable Bingo Operations Division • COSO Internal Controls-Integrated Framework
Identified Management Controls in Place	<ul style="list-style-type: none"> • Written policies and procedures to establish monitoring of conductor training and reporting of proceeds ensuring compliance with BEA requirements: <p><u>Training</u></p> <ul style="list-style-type: none"> ○ Conductor training is provided through the Bingo Service Portal (BSP) system. ○ BOSS tracks training completion and automatically notifies licensees when their training is expiring or has expired. ○ BOSS prevents CBOD from processing applications if training has not been completed. <p><u>Proceeds</u></p> <ul style="list-style-type: none"> ○ BOSS is configured to flag net proceed issues and generates exceptions if there are any discrepancies in the reported net proceeds. ○ CBOD has established a formal procedure for handling cases where negative net proceeds are reported. ○ CBOD has established a formal procedure for processing adjustments to cash receipts. ○ The Audit Services Department performs audits based on risk assessments. The risk assessment is based on the reported data in the quarterly reports.

Conclusion:

A management control structure has been established to ensure oversight and effective management within the CBOD. No gaps in controls or processes were noted.

CBOD has established clear roles and responsibilities to ensure that conductor proceeds and training activities are monitored in compliance with BEA requirements. CBOD assigns specific tasks to qualified personnel, ensuring that all monitoring activities are conducted with precision and accountability.

To support these efforts, CBOD has implemented comprehensive policies and procedures for reporting and monitoring conductor training and proceeds. These policies provide detailed guidelines to ensure that all reporting is accurate, complete, and timely. The procedures are designed to facilitate consistent monitoring and to address any discrepancies or issues promptly.

CBOD personnel are responsible for thoroughly following these established policies and procedures. This includes monitoring the completion of conductor training to ensure that all personnel are adequately trained and compliant with TLC's standards. Regular audits and reviews are conducted to verify that training activities are completed on time and meet the required standards.

Similarly, CBOD monitors conductor proceeds to ensure that all financial transactions are recorded accurately and reported in a timely manner. This monitoring process helps to maintain the integrity of financial data and ensures that all proceeds are accounted for correctly.