



# **TEXAS LOTTERY DIVISION OF TEXAS DEPARTMENT OF LICENSING AND REGULATION**

## **Internal Audit Services** AN INTERNAL AUDIT OF **TLD's Enforcement Division Operations**

Report No. 25-010  
FINAL  
October 7, 2025

*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 internal audit as part of the approved FY 2025 Annual Internal Audit Plan. *Note: TLC formally transitioned into the Texas Department of Licensing and Regulation (TDLR) effective September 1, 2025. As such, although we commenced this audit while TLC was a separate entity, this report is being issued as Texas Lottery and Charitable Bingo Division (TLD).*

### Business Objectives and Scope

The business objective of TLD's Enforcement Division activities is to ensure the integrity and accountability of lottery and charitable bingo operations by enforcing compliance with applicable laws, streamlining complaint intake and investigation processes, and maintaining processes that support proactive enforcement and operational continuity.

The audit scope period was September 1, 2024, to June 30, 2025.

### Audit Focus

- Staffing Levels
- Complaint Intake and Assignment
- Complaint Tracking and Reporting System

### Audit Conclusions

Internal controls over the Enforcement Division's activities effectively support investigative integrity, operational efficiency, and regulatory compliance. The Enforcement Division's structured staffing model, regionally segmented oversight, and specialized roles enable scalable and targeted case management.

Performance monitoring through the Compliance Activity Monitoring Program (CAMP) and quarterly reporting ensures accountability and informed decision-making. Standardized intake procedures and statutory alignment reinforce transparency, while ongoing training and procedural reviews sustain staff competency.

Automated and manual controls within CAMP safeguard complaint data integrity throughout its lifecycle. Collectively, these controls demonstrate the agency's commitment to reliable enforcement operations and statutory compliance.

### What Did We Recommend?

We noted no findings and therefore had no recommendations related to findings.

We noted two (2) opportunities for improvement, areas where the internal controls or processes are effective as designed but could be enhanced. We have listed the recommendations for the opportunities for improvements below:

1. The Enforcement Division should promptly review, update, and approve the outdated procedures, and establish a recurring review schedule to ensure all procedures are evaluated at least once every two years.
2. Create a centralized digital log to track all staff training activities and assign a designated role to ensure timely and accurate recordkeeping.

### Internal Control Rating

Generally Effective.

### Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	0	0
Improvement Opportunities	2			

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

*Thank you!*

## Introduction

We performed this audit as part of the approved FY 2025 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 the evidence obtained accomplishes that requirement.

*Note: TLC formally transitioned into the Texas Department of Licensing and Regulation (TDLR) effective September 1, 2025. As such, although we commenced this audit while TLC was a separate entity, this report is being issued as Texas Lottery Division (TLD).*

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives, and the audit approach.

## Objective, Conclusion, and Internal Control Rating

The business objective of the Enforcement Division's activities is to ensure the integrity and accountability of lottery and charitable bingo operations by enforcing compliance with applicable laws, streamlining complaint intake and investigation processes, and maintaining effective processes that support proactive enforcement and operational continuity.

The audit scope was September 1, 2024, to June 30, 2025.

This audit identified no findings and some improvement opportunities, which resulted in an overall internal control rating of **Generally Effective**. **Exhibit 1** describes the internal control rating.

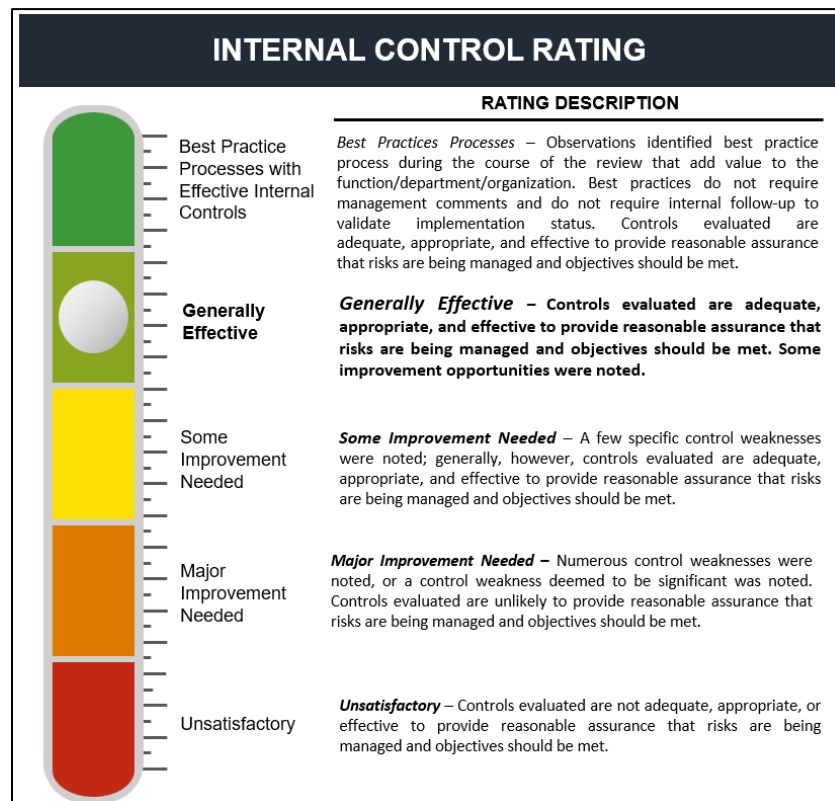


Exhibit 1 – Internal Control Rating

## Finding vs Improvement Opportunity

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where internal controls or processes are effective as designed but can be enhanced.

## Findings and Risk Rating Summary

Inherent risk is the business risk associated with the respective function or process if internal controls were not in place or were not effective. Residual risk is Internal Audit's ranking of the remaining risk or likelihood of a negative event occurring with the internal controls and processes in place. See the findings and management response section of this report for a discussion of all issues identified, recommendations, and management responses, as applicable.

## Background

The TLD's Enforcement Division safeguards the integrity of the Texas lottery through comprehensive investigations of applicants, licensees, vendors, and violations. The Enforcement Division consists of 16 personnel, including investigators and support staff. It conducts investigations into lottery and charitable bingo violations, addressing issues such as unusual activity, pull tab irregularities, unlicensed operations, unauthorized timing, and financial misreporting or theft. Methods include interviews, record reviews, transaction analysis, surveillance, and field visits, often in collaboration with external law enforcement. The Enforcement Division primarily supports the Lottery Operations and Charitable Bingo Operations, while also assisting other agency units. In FY 2023 and FY 2024, the Enforcement Division initiated 1,528 and 1,708 lottery investigations respectively, completing 1,559 and 1,317\*. Bingo investigations initiated were 149 and 139, with completions of 150 and 138\*.

**Note:** \* Includes completed cases that may have been open in the prior year.

The Enforcement Division investigations are assigned based on the county's geographic location. The Enforcement Division has separated the state of Texas into two (2) regions, North and South, to manage efficiency and oversight. **Figure 1** illustrates how the Enforcement Division has the regions currently divided. The boundary line may change to properly align resources with workload. **Figure 2** illustrates the volume of investigations by the Enforcement Division for each region for the period of 9/1/2024 - 8/12/2025.

## State of Texas Counties Map

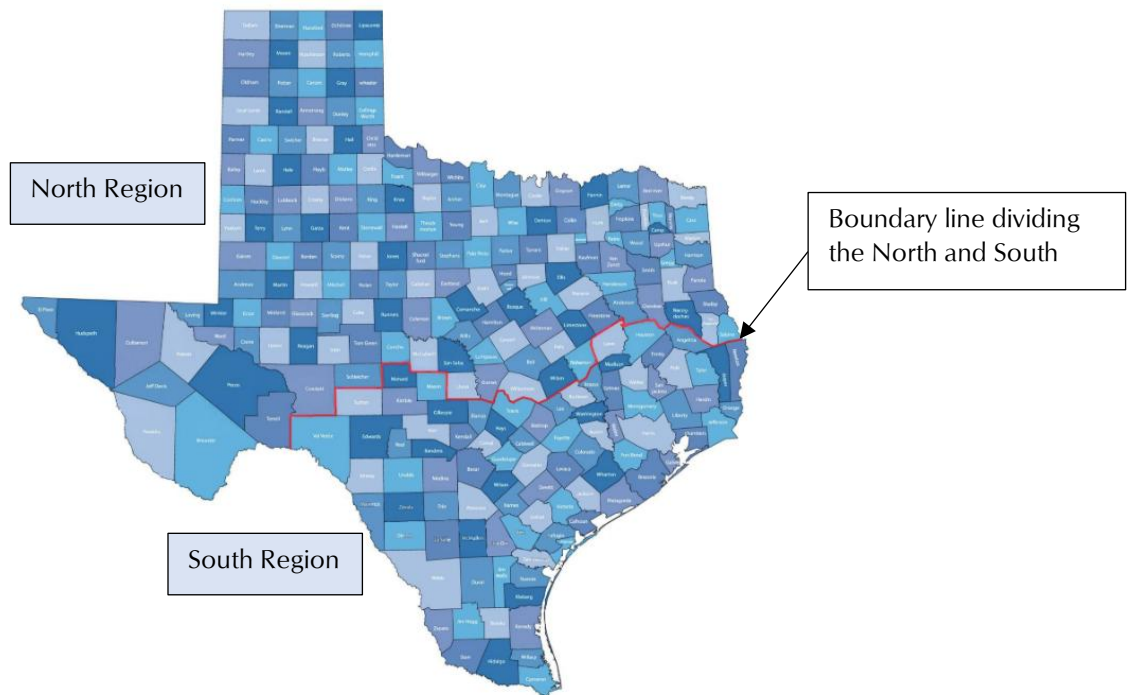


Figure 1 *TLD Enforcement Division – Geographical Investigation Regions.*

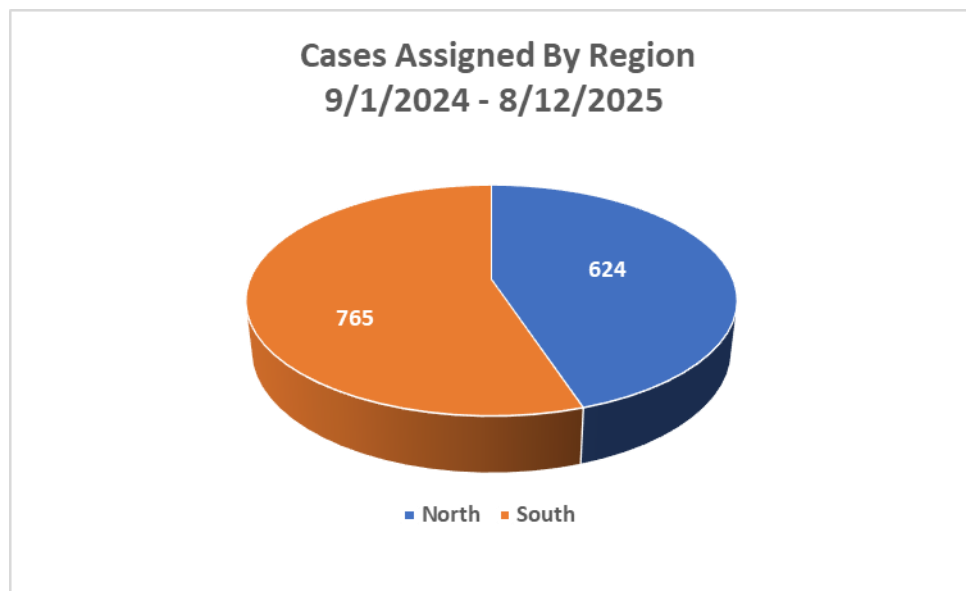


Figure 2 - TLD Enforcement Division – Investigation Volume by Regions.

The Enforcement Division Director oversees six (6) direct reports, including the Enforcement Program Support Lead, Intake Coordinator, Enforcement Program Support Specialist, and Investigations Managers assigned to the North and South regions of Texas, as outlined in **Figure 3**.

## Department of Licensing and Regulation(TDLR) Texas Lottery Enforcement Division

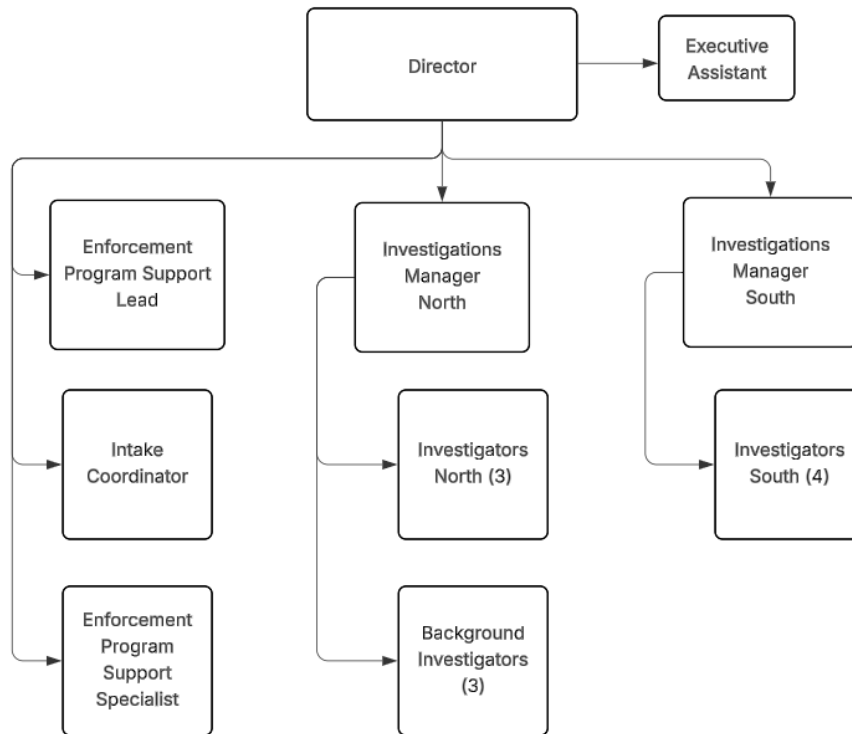


Figure 3 - TLD Enforcement Organization Structure

## Detailed Findings and Management Response

### Business Objective #1: Governance

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.

**Business Risk Rating (Inherent): High**

**Business Risk Rating (Residual): Low**

#### Business Objective:

To ensure adequate staffing for the monitoring of investigative workload and case progression.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>Chapter 466 - Texas Government Code (Lottery Act) Title 13</li> <li>Title 16, Part 9, Chapters 401 &amp; 402 - Texas Administrative Code</li> <li>Enforcement Investigations Intake and Referral Process</li> </ul>
<b>Testing Procedures:</b>	<ul style="list-style-type: none"> <li>Inquired of the Enforcement Division Director to assess Staffing.</li> </ul>

	<ul style="list-style-type: none"> <li>Inspected the "Case Report Statistics by Case Type" report generated from the Compliance Activity Monitoring Program (CAMP) for the period of September 1, 2024, through August 22, 2025, to assess workload distribution among Enforcement Division personnel.</li> <li>Observed the reporting functionality within CAMP.</li> <li>Reviewed the TLD's Organizational Chart to identify personnel assigned to the Enforcement Division.</li> <li>Reviewed Enforcement Division manager reports to assess whether investigative workload and case progression are being effectively tracked.</li> <li>Reviewed the Enforcement Division's Key Performance Indicators (KPIs) and management's review responses for FY2025 through the third quarter, to determine whether the Enforcement Division is effectively monitoring performance in relation to workload and case progression.</li> <li>Observed the CAMP report to determine the Enforcement Division's capability of reporting on cases that may need to be closed after litigation actions.</li> </ul>
<b>Management Controls in Place:</b>	<ul style="list-style-type: none"> <li>TLD has implemented a structured staffing and support model to enhance investigative operations, supported by performance dashboards that monitor workload, case progression, and resolution timelines.</li> </ul>

**Conclusion:**

TLD has implemented a clearly defined and structured staffing model within its Enforcement Division that supports efficient investigative operations. The organizational structure reflects a regionally segmented framework, with designated managers overseeing each region's investigative teams, and specialized roles in intake coordination, background investigations, and program support. This structure enables targeted oversight and operational clarity. Furthermore, the Enforcement Division's ability to manage a substantial caseload—2,031 cases across sixteen personnel—spanning diverse investigative categories such as bingo and lottery backgrounds, intelligence, and sensitive investigations, demonstrates both the scalability and functional breadth of the support model in place. These findings collectively indicate that TLD has effectively aligned its staffing and support framework with its investigative mission.

The Enforcement Division maintains a structured and effective performance monitoring framework. Through periodic reviews by leadership and quarterly reporting to the Office of the Controller, the Enforcement Division leverages CAMP's robust reporting tools and manager-generated spreadsheets to track investigative workload, case progression, and operational efficiency. This layered approach supports informed decision-making, accurate case management, and accountability across enforcement operations.

Opportunity for Improvement

None identified.

**Business Objective #2: Operations & Technology**

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.

**Business Risk Rating (Inherent): High**

**Business Risk Rating (Residual): Low**

**Business Objective:**

To ensure efficient and consistent complaint intake and referral processes through structured procedures, performance monitoring, and ongoing staff training.



<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Chapter 466 - Texas Government Code (Lottery Act) Title 13</li> <li>• Chapter 467 - Texas Government Code Chapter</li> <li>• Enforcement Investigations Intake and Referral Process</li> </ul>
<b>Testing Procedures:</b>	<ul style="list-style-type: none"> <li>• Inquired of TLD's Director of Enforcement to assess TLD training and timely updates to standard operating procedures.</li> <li>• Inspected case volume trends to evaluate compliance with TLD's 2025 target for average case completion time.</li> <li>• Inspected the following TLD procedures to understand the design of the controls: <ul style="list-style-type: none"> <li>• Enforcement Intake and Referral Process</li> <li>• EN-014 – Handling Mail, Faxes, and Hand Deliveries</li> <li>• EN-016 – Employee Background Investigations</li> <li>• EN-017 – External Requests for Investigative Assistance</li> </ul> </li> </ul>
<b>Management Controls in Place:</b>	<ul style="list-style-type: none"> <li>• TLD has established structured intake procedures to ensure accurate and consistent complaint documentation and classification, with ongoing performance monitoring and staff training to maintain compliance with current protocols.</li> </ul>

### Conclusion:

TLD has implemented structured and rule-based intake procedures that support accurate and consistent documentation and classification of complaints. Statutory reviews of Texas Government Code §466.015 and §467.111 confirm the TLD's legal obligation to maintain a comprehensive complaint system and adopt rules governing investigative integrity and transparency. Operationally, the CAMP serves as the central intake and tracking system, with complaints routed appropriately and directly entered by Enforcement staff when applicable. Supporting procedures—such as EN-014 (Handling Mail, Faxes, and Hand Deliveries), EN-016 (Employee Background Investigations), and EN-017 (External Requests for Investigative Assistance)—further demonstrate the TLD's commitment to standardized intake, documentation, and case management protocols. These elements collectively affirm that TLD's intake framework is both structured and aligned with statutory and operational requirements.

TLD Enforcement staff are efficiently managing their caseload, consistently closing cases within the 45-day target for average completion time.

TLD effectively sustains staff competency through ongoing training and timely updates to standard operating procedures. The Enforcement Division holds periodic meetings to review procedures, incorporates staff feedback, and ensures all personnel are familiar with current protocols. Required Texas Commission on Law Enforcement (TCOLE) training for peace officers and biennial procedure reviews further support staff proficiency. Additionally, hands-on training with internal systems and field evaluations for new investigators reinforce operational readiness. Overall, these practices demonstrate a structured and consistent approach to maintaining staff competency and procedural compliance.

### Opportunity for Improvement

- 1) As of June 30, 2025, two Enforcement Division procedures have not been reviewed and or approved within the past two years and are therefore considered outdated:
  - EN-016 – Employee Background Investigations (Effective: April 6, 2023)
  - EN-017 – External Requests for Investigative Assistance (Effective: May 1, 2023)
- 2) The Enforcement Division does not maintain formal records of training activities for its staff.



Opportunity for Improvement Recommendations

- 1) The Enforcement Division should promptly review, update, and approve the outdated procedures, and establish a recurring review schedule to ensure all procedures are evaluated at least once every two years.
- 2) Establish a centralized digital log or database to formally record all training activities, including dates, topics, attendees, and completion status. Additionally, designate a staff member or role (e.g., Enforcement Program Support Lead) to oversee the accurate and timely documentation of training activities.

**Business Objective #3: Compliance & Monitoring**

The purpose of compliance objectives is to ensure that entities conduct their operations in accordance with applicable laws and regulations. This involves understanding and adhering to a wide range of legal requirements. Compliance activities help establish minimum standards of conduct that the entity must incorporate into its objectives. Some organizations may choose to set higher performance standards than those required by applicable regulations.

The purpose of monitoring activities is to ensure that an entity's internal control system remains effective over time. This involves ongoing evaluations and periodic assessments to identify and address any deficiencies in the control processes. Monitoring activities help organizations detect and correct issues promptly, ensuring that internal controls continue to operate as intended. By regularly reviewing and updating control measures, entities can maintain a robust control environment that supports operational efficiency, compliance with laws and regulations, and the achievement of organizational objectives.

**Business Risk Rating (Inherent): High**

**Business Risk Rating (Residual): Low**

**Business Objective:**

To ensure the accuracy, completeness, and timeliness of compliance activity data by implementing automated and manual controls in CAMP that uphold data integrity, traceability, and reliability throughout the complaint lifecycle.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>Chapter 466 - Texas Government Code (Lottery Act) Title 13</li> <li>Enforcement Investigations Intake and Referral Process</li> </ul>
<b>Testing Procedures:</b>	<ul style="list-style-type: none"> <li>Inquired of the Enforcement Division Director to determine how CAMP is leveraged throughout the complaint lifecycle.</li> <li>Inspected the following: <ul style="list-style-type: none"> <li>Enforcement Investigations Intake and Referral Process to determine the workflow investigations follow throughout the complaint lifecycle.</li> <li>Examples of CAMP report approvals which illustrate the flow of approvals.</li> <li>CAMP Retention Schedule to determine investigation records retention requirements.</li> <li>Case Destruction Shredding Log to determine logging of disposal of CAMP investigation records.</li> </ul> </li> </ul>
<b>Management Controls in Place:</b>	<ul style="list-style-type: none"> <li>TLD has implemented automated and manual controls within CAMP to ensure the integrity, traceability, and reliability of complaint data throughout its lifecycle, safeguarding operations against data compromise or loss.</li> </ul>

**Conclusion:**

TLD utilizes both automated and manual controls within CAMP to maintain the integrity, traceability, and reliability of complaint data throughout its lifecycle. CAMP actively monitors investigative workload and case progression, provides configurable reports for detailed analysis, and captures key workflow activities from intake to approval. The investigation workflow enforces electronic submission, multi-level review, and routing, with safeguards against self-approval. Report approval and retention processes are systematically tracked, with

notifications, rule references, and compliance with statutory retention and destruction requirements. These controls collectively ensure robust oversight and reliable management of complaint data.

Opportunity for Improvement Recommendations

None identified.