

CALIFORNIA LOTTERY

Reissued Audit Report

PRIZE VALIDATION PROCESS

July 1, 2011, through October 31, 2013



BETTY T. YEE
California State Controller

July 2015



BETTY T. YEE
California State Controller

July 29, 2015

California Lottery Commission
700 North Tenth Street
Sacramento, CA 95811
ATTN: Nathaniel Kirtman III, Chairperson

Dear Commissioners:

The State Controller's Office audited the California Lottery's (Lottery) prize validation process for the period of July 1, 2011, through October 31, 2013, and issued a report on June 4, 2015.

This report is a reissuance to correct the audit period noted in the June 4, 2015 report. The correction has no impact on the audit finding.

The purpose of the audit was to determine whether the prize validation process is adequately controlled and prize payments made by the Lottery are legal and proper. Based on our audit, we determined that the Lottery's prize validation process is adequately controlled and prize payments made by the Lottery appear to be legal and proper. However, we noted instances in which the Lottery did not follow registered and certified mail-handling procedures.

We issued a draft report to the Lottery dated February 25, 2015. Paula D. LaBrie, Acting Director, responded by letter dated March 19, 2015, on behalf of the Lottery. The Lottery agreed with the finding and recommendation. The letter is included as an attachment to the report.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310 or by email at afinlayson@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Gregory Ahern, Commissioner
California Lottery Commission
Rowena Libang-Bobila, Commissioner
California Lottery Commission
Connie M. Perez, Commissioner
California Lottery Commission
John Smolin, Commissioner
California Lottery Commission
Paula D. LaBrie, Acting Director
California Lottery
Nicholas Buchen, Deputy Director, Finance Division
California Lottery
Roberto Zavala, Deputy Director, Internal Audits
California Lottery

Contents

Reissued Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	2
Reason for Reissuance	3
Restricted Use	3
Finding and Recommendation	4
Attachment—California Lottery’s Response to Draft Report	

Reissued Audit Report

Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) prize validation process for the period of July 1, 2011, through October 31, 2013. The purpose of the audit was to determine whether the prize validation process is adequately controlled and prize payments made by the Lottery are legal and proper.

Based on our audit, we determined that the Lottery's prize validation process is adequately controlled and prize payments made by the Lottery appear to be legal and proper. However, we noted instances in which the Lottery did not follow registered and certified mail-handling procedures.

Background

Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment." In addition, Government Code section 12411 stipulates that ". . . the Controller shall suggest plans for the improvement and management of revenues."

Proposition 37, the California State Lottery Act of 1984 (Lottery Act), amended the California Constitution to authorize the establishment of a statewide lottery, to create the California Lottery Commission, and to give the commission broad powers to oversee the operation of a statewide lottery.

Pursuant to Government Code section 8880.46.6, the SCO may conduct special post-audits of the Lottery, as the State Controller deems necessary. The Controller or his/her agents conducting an audit under this chapter shall have access and authority to examine any and all records of the California Lottery Commission.

The Lottery validates all online and offline (Scratcher) game prize claims received from players. The Prize Payments Section of the Finance Division and the Mail & Reproduction Services Section of the Operations Division are responsible for receiving, recording, and approving prize claims. The Prize Payments Section also works closely with the Security/Law Enforcement Division on questionable claims. In processing online and offline prize payments, the Lottery provides assurance that:

- Only those winning tickets eligible for payment are paid;
- No winning ticket is paid more than once;
- All statutory restrictions are observed; and
- Prize payment data is complete and accurately recorded.

Objectives, Scope, and Methodology

The purpose of the audit was to determine whether the prize validation process is adequately controlled and prize payments made by the Lottery are legal and proper.

The objectives of the audit were to determine whether the Lottery:

- Has adequate fiscal controls over the Lottery's prize validation process to safeguard against any theft, abuse, or losses to the State;
- Is complying with state and federal laws, rules, regulations, and policies with regard to prize payments; and
- Is ensuring that the prize payments made by the Lottery are legal and proper.

The audit procedures included, but were not limited, to the following:

- Reviewing the California Lottery Act, the Lottery Prize Payment Procedures, and other applicable rules and regulations related to prize validation process;
- Analyzing and evaluating the online and offline prize validation processes;
- Reviewing work performed by any external audit organization or by the Lottery's Internal Audit Unit; and
- Performing tests to determine if control objectives are properly achieved.

We conducted this performance audit in accordance with generally accepted government auditing standards, as issued by the Comptroller General of the United States. 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.

Conclusion

Based on our audit, we determined that the Lottery's prize validation process is adequately controlled and prize payments made by the Lottery appear to be legal and proper. However, we noted instances in which the Lottery did not follow registered and certified mail-handling procedures. This finding is detailed in the Finding and Recommendation Section of the report.

Views of Responsible Officials

We issued a draft report to the Lottery dated February 25, 2015. Paula D. LaBrie, Acting Director, responded by letter dated March 19, 2015, on behalf of the Lottery. The Lottery agreed with the finding and recommendation. The response is included as an attachment to this report.

**Reason for
Reissuance**

This report has been reissued to correct the audit period noted in the June 4, 2015 report. The correction has no impact on the audit finding.

Restricted Use

This report is intended for the information and use of the California Lottery, the California Lottery Commission, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

July 29, 2015

Finding and Recommendation

**FINDING—
Noncompliance
with registered
and certified
mail-handling
procedures**

The Lottery did not comply with the registered and certified mail procedures noted in the Lottery Mailroom Procedures, dated January 9, 2014.

The Lottery receives online and offline (Scratcher) game prize claims from the players via regular, registered, and certified mail. Mailroom staff confirm the number of registered and certified mail delivered by the postal carrier. Mailroom staff sign and date stamp the Firm Delivery Receipt provided by the postal carrier as evidence that registered and certified mail receipts have been verified. We reviewed 186 Firm Delivery Receipts from our audit period and noted 14 instances in which Firm Delivery Receipts were not signed and date-stamped by mailroom staff.

The Lottery's Mailroom Procedures state:

Registered and Certified (mail) are delivered to the California Lottery daily by the postmaster not in numerical order. The postmaster will call count out loud, mailroom staff will verify the number counted by postmaster by signing and date stamp(ing) the count sheet. Mailroom staff will put Registered/Certified mail in consecutive order, check, sort, count again, log number of pieces received.

Registered and certified mail are used to provide evidence of mail delivery and receipt on a certain date. If the Lottery does not reconcile the registered and certified mail batch against the list provided by the postal service, the batch of mail may be incomplete upon receipt; therefore, players' tickets and documents may be misplaced or lost in transit, which will potentially hinder the winner authentication process.

Recommendation

The Lottery should ensure that the mailroom staff are complying with existing mailroom procedures regarding the handling of registered and certified mail.

Lottery's Response

The Lottery agrees with the recommendation.

**Attachment—
California Lottery's
Response to Draft Report**

700 North Tenth Street
Sacramento, CA 95811
calottery.com



March 19, 2015

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Prize Validation Process Audit

Dear Mr. Finlayson:

The California Lottery (Lottery) offers the following comments regarding the recently concluded audit of the Lottery's Prize Validation Process for the period January 1, 2011 through December 31, 2013. As stated in the audit report dated February 25, 2015, the specific objectives of the audit were to determine if the Lottery has controls in place to ensure that:

1. Adequate fiscal controls over the Lottery's prize validation process to safeguard against any theft, abuse, or losses to the State;
2. Comply with state and federal laws, rules, regulations, and policies with regard to prize payments; and
3. Ensure that the prize payments made by the Lottery are legal and proper.

We thank you for the opportunity to respond to the draft audit report. We are pleased with the results of the audit. Although no significant internal control issues were identified, the audit identified opportunities to improve the current practices and ensure existing procedures are followed in handling of registered and certified mail. The Lottery's Operations Division has implemented changes to address these issues.

The Lottery offers the following responses to your findings and recommendations:

Finding

Noncompliance with registered and certified mail-handling procedure.

Recommendation

The Lottery should ensure that the mailroom staff are complying with existing mailroom procedures regarding the handling of registered and certified mail.

Response

The Lottery agrees with the recommendation.

The report noted that Firm Delivery Receipts for 14 registered pieces of mail were not signed and date-stamped by Lottery mailroom staff according to Lottery procedures. After reviewing receipt records against the registered mail in question the Lottery believes that the 14 pieces of registered mail were received appropriately; even though, a signature was not available. With that said, the winner authentication process was not at risk of being compromised. Nevertheless, the Lottery will remind mail staff to sign and date-stamp registered mail according to Lottery procedures.

If you have any additional questions, please contact the Internal Audit's Deputy Director, Roberto Zavala at (916) 822-8358.

Sincerely,


Paula D. LaBrie
Acting Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>