

CALIFORNIA LOTTERY

Audit Report

INVESTMENTS AND DEPOSITS PROCESS

July 1, 2012, through June 30, 2014



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 28, 2016

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

Dear Commissioners:

The State Controller's Office audited the California Lottery's (Lottery) investments and deposits process for the period of July 1, 2012, through June 30, 2014. The purpose of the audit was to determine whether the Lottery maintains effective systems of internal control over the investments and deposits process.

Based on our audit, we did not identify conditions or internal control weaknesses that would be considered pervasive in their effects on the investments and deposits process.

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/rg

cc: Gregory Ahern, Vice Chair
California Lottery Commission
Rowena Libang-Bobila, Commissioner
California Lottery Commission
Connie M. Perez, Commissioner
California Lottery Commission
John Smolin, Commissioner
California Lottery Commission
Hugo López, Director
California Lottery
Nicholas Buchen, Deputy Director, Finance Division
California Lottery
Roberto Zavala, Deputy Director, Internal Audits
California Lottery

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Audit Report

Summary

We audited the California Lottery's (Lottery) investments and deposits process for the period of July 1, 2012, through June 30, 2014. The purpose of the audit was to determine whether the Lottery maintains effective systems of internal control over the investments and deposits process.

Based on our audit, we did not identify conditions or internal control weaknesses that would be considered pervasive in their effects on the investments and deposits process.

Audit Authority

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."

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.

Background

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 8880.25.5, the California Lottery Commission may invest funds on deposit in the State Lottery Fund within or outside of the State Treasury System, and may purchase and sell securities—including entering into bond purchase agreements with the state to purchase state general fund obligations—or invest in other evidence of indebtedness issued by the State, including, but not limited to, notes or warrants.

The California Lottery Commission and state statute determine the Lottery's investment and deposit policies. The California Lottery Commission has authorized the Lottery Director to carry out all activities necessary to comply with the Lottery's investment policy. The Lottery's investment policy applies to funds held in the State Lottery Fund, including funds invested to provide for future payments to annuity prize winners and funds invested in a reserve fund for future payments to annuity prize winners.

The principle objectives of the Lottery's investment program are safety of principal and timeliness of payments to Lottery prize winners. The

Lottery's investment policy is also driven by the goal to use the resources from the Lottery's investment portfolio to the maximum benefit of public education.

Pursuant to the approval of the California Lottery Commission, permitted investments include U.S. Treasury obligations, U.S. agency securities, and municipal securities.

As part of the Lottery's investment activity in support of Powerball, Mega Millions, SuperLotto Plus, and various Scratchers games, the Lottery purchases permitted investments to fund future payments to prize winners electing the annuity prize option.

Objectives, Scope, and Methodology

The purpose of the audit was to determine if the Lottery maintains effective systems of internal control over the investments and deposits process. Our specific audit objectives were to determine whether the Lottery:

- Maintains adequate internal controls over the investments and deposits process;
- Complies with applicable laws, rules, regulations, and policies regarding the investments and deposits process;
- Ensures purchases and dispositions of investments are properly authorized, processed, and recorded; and
- Monitors investment portfolios to ensure timely redemption of matured investments and accurate payments to winners.

The audit period was July 1, 2012 through June 30, 2014.

To meet the audit objectives, we performed the following:

- Reviewed the Lottery Act, California Lottery Regulations, California Government Code, State Administrative Manual, Lottery's policies and procedures, and any other applicable rules and regulations;
- Reviewed work performed by any external audit organization, the Lottery's Internal Audits Unit, or any other Lottery unit;
- Interviewed and observed individuals who are involved in the Lottery's investments and deposits process;
- Selected, analyzed, and reviewed transactions and relevant files and records related to the investments and deposits process to determine adequacy of internal controls and compliance with contracts, laws, regulations, rules, policies, and procedures.

We did not audit the Lottery's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

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.

Conclusion

Based on our audit, we did not identify conditions or internal control weaknesses that would be considered pervasive in their effects on the investments and deposits process.

**Views of
Responsible
Officials**

We discussed our audit results with the Lottery's representatives. They agreed with the audit results and stated that we could issue the audit report as final.

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

June 28, 2016

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