

CALIFORNIA LOTTERY

Audit Report

MUSE POWERED BY QUANTASY CONTRACT AUDIT

November 1, 2013, through December 31, 2014



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 30, 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) contract with Muse Powered by Quantasy (Muse) for the period of November 1, 2013, through December 31, 2014. The purpose of the audit was to determine whether the Lottery was maintaining effective systems of internal control over the Muse contract.

Based on our audit, we did not identify conditions or internal control weaknesses that would be considered pervasive in their effects on the Lottery's internal controls over the Muse contract.

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
California Lottery
Roberto Zavala, Chief Internal Auditor
California Lottery

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Audit Report

Summary

We audited the California Lottery's (Lottery) contract with Muse Powered by Quantasy (Muse) for the period of November 1, 2013, through December 31, 2014. The purpose of the audit was to determine whether the Lottery was maintaining effective systems of internal control over the Muse contract.

Based on our audit, we did not identify conditions or internal control weaknesses that would be considered pervasive in their effects on the Lottery's internal controls over the Muse contract.

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.

The Lottery entered into a contract with Muse to provide advertising services for California's African American consumer market. These services include, among other things, assisting in overall marketing analysis, strategy development, and positioning of the Lottery and its products; and sharing responsibility for planning, coordination, and executing the Lottery's overall marketing plan and the Lottery's African American consumer market annual advertising plan. The maximum amount of the contract is \$12,500,000. The contract period is from November 1, 2013, through October 31, 2018, with option to extend two one-year periods.

Objectives, Scope, and Methodology

The purpose of the audit was to determine whether the Lottery was maintaining effective systems of internal control over the Muse contract. Our specific audit objectives were to determine whether the Lottery:

- Maintains adequate internal controls over the Muse contract to safeguard the State against any theft, abuse, or losses;

- Complies with applicable laws, rules, regulations, policies, and procedures regarding the Muse contract; and
- Ensures that contract payments are legal and proper.

The audit period was November 1, 2013, through December 31, 2014.

To meet the audit objectives, we performed the following:

- Reviewed the Muse contract and applicable laws, regulations, rules, policies, and procedures;
- Reviewed work performed by any external audit organization, the Lottery's Internal Audit Unit, or any other Lottery unit;
- Interviewed and observed Lottery staff involved in the process over the Muse contract; and
- Selected, analyzed, and reviewed transactions and relevant files and records related to the Muse contract to determine the 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

Our audit of the Lottery's contract with Muse for the period of November 1, 2013, through December 31, 2014, did not find conditions or internal control weaknesses that would be considered pervasive in their effects on the Lottery's internal controls over the Muse contract.

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 30, 2016

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