

CALIFORNIA LOTTERY

Audit Report

POLLARD BANKNOTE LIMITED CONTRACT

December 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) Pollard Banknote Limited contract for the period of December 1, 2013, through December 31, 2014. The purpose of the audit was to determine whether the Lottery maintains effective systems of internal control over the Pollard Banknote Limited contract.

Based on our audit, we did not identify any significant conditions or internal control weaknesses that would be considered pervasive in their effects on the Lottery's internal controls over the Pollard Banknote Limited 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/lis

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

Nicolas Buchen, Deputy Director, Finance Division

California Lottery

Roberto Zavala, Deputy Director, Internal Audits

California Lottery

Nicole Soluri, Chief Counsel

California Lottery

Terry Murphy, Deputy Director, Operations Division

California Lottery

Michelle Tong, Assistant Deputy Director, Sales & Marketing Division

California Lottery

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Audit Report

Summary

We audited the California Lottery's (Lottery) Pollard Banknote Limited contract for the period of December 1, 2013, through December 31, 2014. The purpose of the audit was to determine whether the Lottery maintains effective systems of internal control over the Pollard Banknote Limited contract.

Based on our audit, we did not identify any significant conditions or internal control weaknesses that would be considered pervasive in their effects on the Lottery's internal controls over the Pollard Banknote Limited 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 Pollard Banknote Limited to provide all services requested by the Lottery for the production of Scratchers® games, including, but not limited to, game planning, game design and programming, game and prize structure development, game and ticket production and delivery, extended marketing and sales support, a secure printing plant, systems analysis, computer programming in conformity with technical specifications, and maintenance of systems, programs, and equipment. Pollard Banknote Limited may also be required to provide special services and features and industry innovations that are or become available during the term of the contract. Pollard Banknote Limited must at all times be prepared to produce at least 100 million instant tickets per game as ordered by the Lottery while meeting all contractual obligations. The contract period is December 1, 2014, through November 30, 2019. The maximum amount of the contract is \$50 million.

Objectives, Scope, and Methodology

The purpose of the audit was to determine whether the Lottery maintains effective systems of internal control over the Pollard Banknote Limited contract. Our specific audit objectives were to determine whether the Lottery:

- Maintains adequate internal controls over the Pollard Banknote Limited contract to safeguard the State against any theft, abuse, or losses;
- Complies with applicable laws, rules, regulations, policies, and procedures regarding the Pollard Banknote Limited contract; and
- Ensures that contract payments are legal and proper.

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

To meet the audit objectives, we performed the following:

- Reviewed the Pollard Banknote Limited 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 Pollard Banknote Limited contract; and
- Selected, analyzed, and reviewed transactions and relevant files and records related to the Pollard Banknote Limited contract to determine adequacy of internal controls and compliance with the contract, 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 any significant conditions or internal control weaknesses that would be considered pervasive in their effects on the Lottery's internal controls over the Pollard Banknote Limited 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

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

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