

# CALIFORNIA LOTTERY

Audit Report

## OFFICE REVOLVING FUND EXPENDITURES

*January 1, 2008, through December 31, 2012*



**JOHN CHIANG**  
California State Controller

August 2014



**JOHN CHIANG**  
**California State Controller**

August 29, 2014

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

Dear Commissioners:

We audited the California Lottery's (Lottery) Office Revolving Fund (ORF) expenditures for the period of January 1, 2008, through December 31, 2012.

The purpose of our audit was to determine if the Lottery is maintaining effective financial and program management practices over its ORF expenditures.

Based on our audit, we identified the following conditions:

- The Lottery had inadequate supporting documentation for ORF disbursements, totaling \$10,690;
- The Lottery improperly used office revolving funds, totaling \$71,737; and
- The Lottery did not clear travel advances made from the ORF, totaling \$5,732, in a timely manner.

A draft report was presented to the Lottery on May 1, 2014. Paula D. LaBrie, Acting Director, responded to the findings on behalf of the Lottery in a letter dated May 19, 2014, included as an attachment to this report. The Lottery agreed with the findings. We incorporated the Lottery's responses into the final report. During the response period, the Lottery provided additional information to us in regards to one of the findings. The report was modified to reflect the additional information provided.

If you have any questions, please call Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/sk

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  
California Lottery  
Roberto Zavala, Chief Internal Auditor  
California Lottery

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) Office Revolving Fund (ORF) expenditures for the period of January 1, 2008, through December 31, 2012.

Based on our audit, we identified the following conditions:

- The Lottery had inadequate supporting documentation for ORF disbursements, totaling \$10,690;
- The Lottery improperly used office revolving funds, totaling \$71,737; and
- The Lottery did not clear travel advances made from the ORF, totaling \$5,732, in a timely manner.

## Background

By authority of the California Constitution, 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 other 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.

Government Code section 16400 established an agency's ability to draw from its appropriation an amount that may be used as a revolving fund. Government Code section 16401 states that any revolving fund drawn under the provisions of Section 16400 may only be used in accordance with law for payment of compensation earned, traveling expenses, traveling expense advances, or where immediate payment is otherwise necessary.

State Administrative Manual section 8100 identifies the overall policies and procedures for revolving fund disbursements and accounting procedures.

## **Objectives, Scope, and Methodology**

The scope of the audit was for the period of January 1, 2008, through December 31, 2012. The purpose of the audit was to determine if the Lottery is maintaining effective financial and program management practices over its ORF expenditures.

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

- Has adequate internal controls over ORF expenditures;
- Uses the ORF for authorized purposes;
- Maintains accountability for the ORF; and
- Is abiding with state laws, rules, and regulations as they relate to office revolving funds.

We performed the following audit procedures:

- Reviewed the California Lottery Act, State Administrative Manual, the Lottery's policies and procedures, and any other applicable laws, regulations, and rules related to the Lottery's ORF expenditures;
- Reviewed work performed by any external audit organization, by the Lottery's Internal Audit Office, or by any other Lottery unit;
- Interviewed and observed individuals involved in authorizing and monitoring the Lottery's ORF expenditures;
- Obtained an understanding of the components of internal control sufficient to conduct the audit; and
- Performed tests of procedural compliance and propriety of the expenditures processed through the Lottery's ORF.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. We did not audit the Lottery's financial statements. 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 of the Lottery's ORF expenditures for the period of January 1, 2008, through December 31, 2012, we identified the following conditions:

- The Lottery had inadequate supporting documentation for ORF disbursements, totaling \$10,690;
- The Lottery improperly used office revolving funds, totaling \$71,737; and

- The Lottery did not clear travel advances made from the ORF, totaling \$5,732, in a timely manner.

These conditions are detailed in the Findings and Recommendations section of our report.

### **Views of Responsible Official**

A draft report was presented to the Lottery on May 1, 2014. Paula D. LaBrie, Acting Director, responded to the findings on behalf of the Lottery in a letter dated May 19, 2014, included as an attachment to this report. The Lottery agreed with the findings. We incorporated the Lottery's responses into this report.

### **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

August 29, 2014

# Findings and Recommendations

## **FINDING 1— Inadequate supporting documentation for Office Revolving Fund disbursements**

We reviewed 81 distributions from the Office Revolving Fund (ORF) that totaled \$719,138 or three percent of the total population, for the audit period of January 1, 2008 through December 31, 2013. We noted the following:

- Two payments, totaling \$2,150, did not have supporting documentation;
- Six travel advance payments, totaling \$7,470, had inadequate supporting documentation. The payment files were missing critical documentation, such as payment advance request forms and approvals and/or reconciling travel expense claims and receipts; and
- One vendor payment, in the amount of \$1,070, did not have a purchase order approval on file.

The Lottery's ORF policies and procedures include maintaining a file that contains supporting documentation for every payment. Adequate supporting documentation ensures proper authorization and payment, timely and proper reconciliation to accounting records, and timely reimbursement to the ORF, for all disbursements.

Government Code (GC) section 13403 states that internal accounting and administrative controls are the methods through which state agencies can give reasonable assurance that measures are taken to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. State Administrative Manual section 20050 states that the elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, and revenues and expenditures.

If the Lottery does not adhere to management's policies and procedures for the ORF, it could lack critical elements of a satisfactory system of internal accounting and administrative controls for revolving fund distributions, as defined in GC section 13403.

### Recommendation

We recommend that the Lottery maintain adequate supporting documentation for every ORF payment. The Lottery should adequately monitor control compliance related to ORF policies and procedures and ensure that Lottery staff fully understands the ORF policies and procedures.

### Lottery's Response

The Lottery agrees with the finding and believes that an effective system of internal accounting and administrative controls is essential to safeguarding assets and assuring the accuracy and reliability of accounting data. The Lottery continues to make improvements in these areas to mitigate the re-occurrence of errors, particularly when faced with significant changes in its personnel and infrastructure. Such changes occurred during the audit period of the ORF Audit. Lottery headquarters underwent a physical move to a new location, which required hardcopy files to be temporarily boxed and transferred. Also, the Finance Division experienced a change in key personnel who were the most familiar with the ORF process. Although these events brought about a few challenges, the Finance Division turned them into opportunities to refine policies and procedures, create efficiencies; improve its record-keeping practices; train new staff and increase supervisory monitoring. As a result, a majority of the items sampled in the audit had adequate documentation while a small number of the \$24 million in ORF disbursements during the five-year period required a more in-depth review. Nevertheless, while the items in question did not appear to have adequate documentation, they were determined to be valid disbursements.

### SCO's Comment

The Lottery agrees with the finding. We would like to clarify that only three percent of the \$24 million was reviewed during this audit. Therefore, we cannot report on the adequacy of the documentation for the entire audit population. In addition, due to the lack of adequate documentation, we were unable to determine if the items in question were valid disbursements.

### **FINDING 2— Improper use of Office Revolving Funds**

We reviewed 81 distributions from the Office Revolving Fund (ORF) that totaled \$719,138, or three percent of the total population, for the audit period.

We found that three vendor payments, totaling \$71,737, were improperly disbursed from the ORF. The supporting documentation did not indicate the need for immediate payment through the ORF, such as an immediate payment for a discount, special terms, or to avoid a late fee.

The payments were as follows:

- Bailey's Beverage Corner for mall kiosk charges, \$10,763;
- Wayne Broussard for lighting services for a Super Lotto Set, \$2,000; and
- Autowest Honda Roseville for vehicle purchases, \$58,974.

These payments should have been paid through the normal claim processing procedures and a State Controller's Office warrant issued.

Government Code (GC) section 16401, states that revolving funds may only be used in accordance with law for payment of compensation earned, traveling expenses, traveling expense advances, or where immediate payment is otherwise necessary. According to State Administrative Manual (SAM) section 8110, “in determining whether immediate payment is necessary, the determining factor is whether payment could be made through the normal claim processing procedures and State Controller’s warrant issued.”

Improper use of the ORF could result in misuse of state funds in accordance with GC section 16401 and SAM section 8110.

#### Recommendation

We recommend that the Lottery adhere to its policies and procedures, GC section 16401, and SAM section 8110 for ORF distributions and ensure that Lottery staff understand the permissible uses for office revolving funds.

#### Lottery’s Response

The Lottery agrees with the finding, and agrees it should adhere to its policies and procedures for ORF distributions and ensure staff understands the permissible uses for these funds. Within an environment of strong internal controls, the Lottery authorizes payments against the ORF in accordance with its policies and state law. The Lottery also exercises discretion for making urgent payments from the ORF to take advantages of vendor discounts. This audit provides an opportune time for the Finance Division to modify its Request for Disbursements Form to lend more structure to the authorization process. In addition, Finance intends to refine its ORF policy and use it as an outreach tool to educate the other divisions prior to entering into an agreement with a vendor.

#### SCO’s Comment

The Lottery agrees with the finding.

### **FINDING 3— Travel advances not cleared in a timely manner**

We reviewed 81 distributions from the Office Revolving Fund (ORF) that totaled \$719,138, or three percent of the total population for the audit period. We found that two travel advance payments, totaling \$5,732, were not cleared until 77 and 151 days, respectively, after they were issued.

The Lottery’s travel advance policies state that travel advances are to be cleared within 30 days from the issue date of the advance.

#### Recommendation

We recommend that the Lottery adhere to its ORF policies and procedures to ensure that travel advances are cleared in a timely manner.

Lottery's Response

The Lottery agrees with the finding and agrees it should adhere to its ORF policies and procedures to ensure travel advances are cleared timely. Increased efforts have been made to improve communication with the Lottery's business travelers and Human Resources Division to collect advances. To disseminate the latest information and reminders on business travel, the lottery issues quarterly newsletters and conducts presentations on travel-related matters. The Lottery also anticipates a more streamlined and efficient process for clearing travel advances when CalATERS Global is implemented later this year.

SCO's Comment

The Lottery agrees with the finding.

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

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May 19, 2014

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

RE: Office Revolving Fund Expenditures (ORF) Audit

Dear Mr. Finlayson:

The California Lottery (Lottery) offers the following comments regarding your recently concluded audit of the Office Revolving Fund (ORF) Expenditures conducted by the State Controller's Office (SCO). The purpose of the audit was to determine whether the Lottery is maintaining effective financial and program management practices over its ORF expenditures.

As stated in the report dated May 1, 2014, the specific objectives of the audit for the period of January 1, 2008, through December 31, 2012, were to determine whether the Lottery has internal controls in place to ensure that:

- Has adequate internal controls over ORF expenditures;
- Uses the ORF for authorized purposes;
- Maintains accountability for the ORF; and
- Is abiding with the state laws, rules and regulations as they relate to office revolving funds.

We are pleased with the audit results and thank you for the opportunity to respond to the draft report. While the draft report identified opportunities for improvements, there are no issues to question reliance on the Lottery's system of controls. We see areas of improvements for managing ORF by maintaining all supporting documents; ensuring Lottery staff adheres to the policies and procedures for ORF distribution; and in monitoring timeliness of travel advances.

The Finance Division is updating their record-keeping procedures to ensure that documentation is readily available and improving supervision oversight; revising the Request for Disbursements Form to reinforce permissible use; and with the planned implementation to California Automated Travel Expense Reimbursement System (CalATERS); expecting timely clearance of travel advances.

**Finding 1**

The Lottery had inadequate supporting documentation for Office Revolving Fund disbursements, totaling \$65,061.49.

**Recommendation**

We recommend that the Lottery maintain adequate supporting documentation for every ORF payment. The Lottery should adequately monitor control compliance related to ORF policies and procedures and ensure that Lottery staff fully understands the ORF policies and procedures.

**Response**

The Lottery agrees with the finding and believes that an effective system of internal accounting and administrative controls is essential to safeguarding assets and assuring the accuracy and reliability of accounting data. The Lottery continues to make improvements in these areas to mitigate the re-occurrence of errors, particularly when faced with significant changes in its personnel and infrastructure. Such changes occurred during the audit period of the ORF Audit. Lottery headquarters underwent a physical move to a new location, which required hardcopy files to be temporarily boxed and transferred. Also, the Finance Division experienced a change in key personnel who were the most familiar with the ORF process. Although these events brought about a few challenges, the Finance Division turned them into opportunities to refine policies and procedures, create efficiencies; improve its record-keeping practices; train new staff and increase supervisory monitoring. As a result, a majority of the items sampled in the audit had adequate documentation while a small number of the \$24 million in ORF disbursements during the five-year period required a more in-depth review. Nevertheless, while the items in question did not appear to have adequate documentation, they were determined to be valid disbursements.

**Finding 2**

The Lottery improperly used office revolving funds totaling \$71,737.30.

**Recommendation**

We recommend that the Lottery adhere to its policies and procedures, GC section 16401, and SAM section 8110 for ORF distributions and ensure that Lottery staff understands the permissible uses for office revolving funds.

**Response**

The Lottery agrees with the finding, and agrees it should adhere to its policies and procedures for ORF distributions and ensure staff understands the permissible uses for these funds. Within an environment of strong internal controls, the Lottery authorizes payments against the ORF in accordance with its policies and state law. The Lottery also exercises discretion for making urgent payments from the ORF to take advantage of vendor discounts. This audit provides an opportune time for the Finance Division to modify its Request for Disbursements Form to lend more structure to the authorization process. In addition, Finance intends to refine its ORF policy and use it as an outreach tool to educate the other divisions prior to entering into an agreement with a vendor.

**Finding 3**

The Lottery did not clear travel advances made from the ORF, totaling \$5,732, in a timely manner.

**Recommendation**

We recommend that the Lottery adhere to its ORF policies and procedures to ensure that travel advances are cleared in a timely manner.

**Response**

The Lottery agrees with the finding and agrees it should adhere to its ORF policies and procedures to ensure travel advances are cleared timely. Increased efforts have been made to improve communication with the Lottery's business travelers and Human Resources Division to collect advances. To disseminate the latest information and reminders on business travel, the Lottery issues quarterly newsletters and conducts presentations on travel-related matters. The Lottery also anticipates a more streamlined and efficient process for clearing travel advances when CalATERS Global is implemented later this year.

If you have any additional questions, please contact the Audit Chief, 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>**