

CALIFORNIA LOTTERY

Audit Report

INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS OF THE CASH RECEIPTS PROCESS

July 1, 2010, through June 30, 2012



JOHN CHIANG
California State Controller

October 2013



JOHN CHIANG
California State Controller

October 25, 2013

California Lottery Commission
700 North Tenth Street
Sacramento, CA 95811

Dear Commissioners:

The State Controller's Office audited the California Lottery's (Lottery) internal accounting and administrative controls over the cash receipts process for the period of July 1, 2010, through June 30, 2012.

Our audit found that the Lottery maintains adequate controls over the cash receipts process. Our audit did not find any significant deficiencies in regards to the Lottery's internal accounting and administrative controls over the cash receipts process.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/vb

cc: Nathaniel Kirtman III, Commissioner
California Lottery Commission
John Smolin, Commissioner
California Lottery Commission
Phil Tagami, Commissioner
California Lottery Commission
Gregory Ahern, Commissioner
California Lottery Commission
Connie M. Perez, 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

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	2
Restricted Use	2

Audit Report

Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) internal accounting and administrative controls over the cash receipts process for the period of July 1, 2010, through June 30, 2012.

Our audit found that the Lottery maintains adequate controls over the cash receipts process. Our audit did not disclose any significant deficiencies in regards to the Lottery's internal accounting and administrative controls over the cash receipts process.

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.

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."

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.

Article 7, Section 8880.61 of the Lottery Act created a special fund with the State Treasury known as the State Lottery Fund (Fund). The Fund operates as an enterprise fund and is required to be entirely self-funded from lottery sales. All cash receipts received by the Lottery are deposited into the Fund.

Lottery cash receipts consist of:

1. Electronic fund transfers from the sales of lottery tickets from retailer bank accounts;
2. Checks from retailers for non-sufficient funds; and
3. Other miscellaneous payments, such as refunds from vendors and lease payments.

**Objectives, Scope,
and Methodology**

The purpose of the audit was to determine if the Lottery maintains adequate controls over the cash receipts process. The audit covered the period of July 1, 2010, through June 30, 2012. The objectives of the audit were to determine if the Lottery had adequate controls in place to ensure that:

- Established policies and procedures exist for the collection, safeguarding, and deposit of cash receipts;
- Segregation of duties exists over the over cash receipts functions;
- Cash receipts are authorized in accordance with State laws and regulations;
- Cash receipts transactions are correctly recorded in the Lottery's accounting records, and proper accountability was maintained; and
- Subsidiary records reconcile to control accounts and bank statements, and periodic reconciliations are performed to identify and correct discrepancies.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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

We determined that the Lottery maintains adequate controls over the cash receipts process. Our audit did not disclose any significant deficiencies in regards to the Lottery's internal accounting and administrative controls over the cash receipts process.

**Views of
Responsible
Officials**

We discussed our audit results with Lottery program and accounting staff. As no reportable conditions were found, they agreed that a draft report was not necessary, and the report could be issued 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

October 25, 2013

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