

# **CALIFORNIA LOTTERY**

Audit Report

## **DRAW MANAGEMENT PROCESSES AND PROCEDURES**

*January 1, 2009, through January 31, 2012*



**JOHN CHIANG**  
California State Controller

November 2012



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

November 30, 2012

Phil Tagami, Chairperson  
California Lottery Commission  
700 North Tenth Street  
Sacramento, CA 95811

Dear Commissioners:

The State Controller's Office audited the California Lottery's (Lottery) Draw Management processes and procedures for the period of January 1, 2009, through January 31, 2012.

Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls over the Lottery's Draw Management.

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

Sincerely,

*Original signed by*

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

JVB/bf

cc: Gregory Ahern, Commissioner  
California Lottery Commission  
Nathaniel Kirtman III, Commissioner  
California Lottery Commission  
Connie M. Perez, Commissioner  
California Lottery Commission  
John Smolin, Commissioner  
California Lottery Commission  
Robert T. O'Neill, Director  
California Lottery  
Everest Robillard, Director  
Security and Law Enforcement  
California Lottery  
Mike Ota, Deputy Director, Finance  
California Lottery  
Roberto Zavala, Chief Internal Auditor  
California Lottery

# Contents

## **Audit Report**

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objectives, Scope, and Methodology</b> .....	2
<b>Conclusion</b> .....	3
<b>Views of Responsible Officials</b> .....	3
<b>Restricted Use</b> .....	4

# Audit Report

## Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) Draw Management processes and procedures for the period of January 1, 2009, through January 31, 2012. The last day of fieldwork was August 15, 2012.

The purpose of our audit was to determine whether the Lottery's Draw Management processes and procedures for the period were adequately controlled and complied with laws, rules, and regulations; and prizes were awarded in a legal and proper manner.

Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls over the Lottery's Draw Management.

## 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.

The Draw Management Section is currently within the Security Law Enforcement Division. The Security Law Enforcement Division, Draw Management Section, conducts all draws with a representative from a firm of independent certified public accountants. The Lottery Deputy Director of Law Enforcement approves draw procedures governing the draws. Draw Management's primary responsibilities are as follows:

- Coordinate and approve all procedural and divisional activities related to all Lottery draws;
- Conduct, manage, and maintain control of all draws;
- Test, evaluate, and certify all draw equipment for game worthiness; and
- Provide for the storage and maintenance of all gaming and draw equipment.

The Lottery started Draw Games sales in October 1986 with Lotto 6/49. Daily Draw Games were introduced in March 1990. The Lottery currently offers to the public the following draws:

- **MEGA Millions** is the Lottery's highest-selling and largest multi-state lottery game in North America, with annual sales over \$538 million. California joined the MEGA Millions game in June 2005. To date, 43 lotteries, including California, participate in the bi-weekly MEGA Millions drawings. MEGA Millions draws are conducted in Atlanta, Georgia, at 8:00 p.m. PST on Tuesday and Friday evenings.
- **SuperLOTTO Plus** is the Lottery's second-highest-selling draw game, with annual sales over \$434 million. Draws are conducted twice weekly, on Wednesdays and Saturdays, using mechanical devices (i.e., ball machines).
- **Fantasy 5** is the Lottery's third-highest-selling draw game, with annual sales over \$159 million. Draws are conducted on a daily basis using a Lottery-owned and operated computer.
- **Daily 3** is the California Lottery's fourth-highest-selling draw game, with annual sales over \$130 million. Draws are conducted twice a day using a Lottery-owned-and-operated computer.
- **Hot Spot** is the California Lottery's fifth-highest-selling draw game, with annual sales around \$130 million. Draws are conducted on a daily basis every four minutes using a Lottery-owned and operated computer.
- **Daily 4** is the California Lottery's sixth-highest-selling draw game, with annual sales over \$29 million. Draws are conducted on a daily basis using a Lottery-owned-and-operated computer.
- **Daily Derby** is the seventh-highest-selling draw game, with annual sales of approximately \$13 million. Draws are conducted on a daily basis using a Lottery-owned and operated computer.
- **Raffle** games are offered for a limited time, and the prize structure varies by raffle. The Lottery uses a Lottery-owned-and-operated computer to draw the winning numbers. There were no Raffle games offered during our audit period.

## Objectives, Scope, and Methodology

The purpose of our audit was to determine whether the Lottery's Draw Management processes and procedures for the period were adequately controlled and complied with laws, rules, and regulations, and that prizes were awarded in a legal and proper manner.

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.

The specific objectives of the audit were to determine whether the Lottery is:

- Maintaining adequate internal controls over the draw processes and procedures to safeguard against any losses to the State;
- Abiding with laws, rules, regulations, and policies in maintaining draw processes and procedures; and
- Awarding draw prizes in a legal and proper manner.

The period under review was from January 1, 2009, through January 31, 2012.

The audit scope included, but was not limited to the following procedures:

- Reviewing the California State Lottery Act, the State Administrative Manual, Lottery policies, and any other applicable laws, regulations, and rules;
- Reviewing work performed by any external audit organization or by any other Lottery unit;
- Interviewing and observing individuals involved in authorizing, monitoring, and conducting the draws;
- Analyzing and evaluating processes related to draw policies and procedures;
- Obtaining an understanding of components of internal controls sufficient to conduct the audit; and
- Performing test of procedural compliance and propriety of the draw prizes awarded.

## **Conclusion**

Our audit determined that the Lottery's Draw Management processes and procedures were adequately controlled and complied with laws, rules, and regulations.

## **Views of Responsible Officials**

We discussed our audit results with Everest Robillard, Deputy Director of Security/Law Enforcement and Robert Zavala, Chief of Internal Audits, during the exit conference held on September 19, 2012. Mr. Robillard and Mr. Zavala agreed with the audit results. No findings were disclosed during our audit; therefore, a draft report is not necessary and the report will 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  
Chief, Division of Audits

November 30, 2012

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Division of Audits  
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