

CALIFORNIA LOTTERY

Audit Report

CASH DISBURSEMENTS PROCESS

January 1, 2011, through May 31, 2012



JOHN CHIANG
California State Controller

December 2013



JOHN CHIANG
California State Controller

December 31, 2013

Paula D. LaBrie, Acting Director
California Lottery
700 North Tenth Street
Sacramento, CA 95811

Dear Ms. LaBrie:

The State Controller's Office audited the California Lottery's (Lottery) internal accounting and administrative controls over the cash disbursements process for the period of January 1, 2011 through May 31, 2012. The purpose of our audit was to determine whether the Lottery is maintaining effective systems of internal accounting and administrative controls over the cash disbursements process. Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the cash disbursements process.

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, CPA
Chief, Division of Audits

JVB/sk

cc: John Smolin, Chairperson
California Lottery Commission
Gregory Ahern, Commissioner
California Lottery Commission
Nathaniel Kirtman III, Commissioner
California Lottery Commission
Connie M. Perez, Commissioner
California Lottery Commission
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 audited the California Lottery's (Lottery) internal accounting and administrative controls over the cash disbursements process for the period of January 1, 2011 through May 31, 2012. The purpose of our audit was to determine whether the Lottery is maintaining effective systems of internal accounting and administrative controls over the cash disbursements process. Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the cash disbursements process.

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.

Objectives, Scope, and Methodology

The purpose of our audit was to determine whether the Lottery is maintaining effective systems of internal accounting and administrative controls over the cash disbursements process.

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. We did not audit the Lottery's financial statements.

The objectives of the audit were to determine whether the Lottery has internal controls in place to ensure that:

- Established policies and procedures exist for cash disbursements;
- Adequate separation of duties exists over cash disbursements;
- Cash disbursements are properly authorized and made only for proper purposes;
- Cash disbursements journals, ledger accounts, and bank accounts are posted accurately and promptly and reconciled with control accounts and periodically reconciled;
- Adequate safeguards exist over check signing activities; and
- Payments for purchases are accurate and are processed and recorded promptly.

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

- Reviewing the California Lottery Act, the State Administrative Manual, and any other applicable policies and procedures related to the cash disbursements process;
- Reviewing prior SCO audits and work performed by any external audit organization, by the Lottery Internal Audits Office, or by any other Lottery Section;
- Gaining an understanding of the controls in place over the cash disbursements process;
- Analyzing and evaluating the internal controls for the cash disbursements process and determining its strengths and weaknesses; and
- Performing tests to determine if control objectives are being properly achieved.

Conclusion

Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the cash disbursements process.

Views of Responsible Official

We discussed our audit results with Nora Ross, Accounting Administrator I of Accounting Operations and Tax Bureau, Finance, on October 10, 2013. Ms. Ross agreed with the audit results and requested to waive the official exit conference. 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, CPA
Chief, Division of Audits

December 31, 2013

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