

CALIFORNIA LOTTERY

Audit Report

PRIZE VALIDATION PROCESS

July 1, 2004, through December 31, 2005



JOHN CHIANG
California State Controller

January 2007



JOHN CHIANG
California State Controller

January 17, 2007

Joan M. Borucki
Chief Deputy Director
California Lottery
600 North Tenth Street
Sacramento, CA 95814

Dear Ms. Borucki:

The State Controller's Office audited the California Lottery's (Lottery) prize validation process for the period of July 1, 2004, through December 31, 2005.

Our audit of the prize validation process determined that the Lottery is not consistent in completing the Batch Header Sheet, used in documenting completed procedures for the prize validation process.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: John Mass, Chairman
California Lottery Commission
Loretta Doon, Commissioner
California Lottery Commission
Rachel Montes, Commissioner
California Lottery Commission
Manuel Ortega, Commissioner
California Lottery Commission
Patt Eberhart, Director
Finance and Administration
California Lottery
Stacy Matsunami, Director
Special Projects
California Lottery
Cathleen Dinubilo, Chief
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Audit Report

Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) prize validation process for the period of July 1, 2004, through December 31, 2005. The last day of fieldwork was May 17, 2006.

Our audit determined that the Lottery's Claims and Player Services Division is not consistent in completing the Batch Header Sheet, used in documenting completed procedures for the prize validation 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 8880.67, 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 Lottery validates all online and off-line (Scratcher) game prize claims received from the players and district offices. The Prize Payment Section and the Mailroom within the Lottery's Claims and Player Services Division are responsible for receiving, recording, and approving claims for the Lottery. The Prize Payment Section also works closely with the Special Investigations Unit on questionable claims and with the Draw Management Section on all Big Spin eligibility claims. Both the Special Investigation Section and the Draw Management Section are located within Security and Law Enforcement Division. In processing online and off-line (Scratcher) prize payments, the Lottery provides assurance that:

- Only those winning tickets eligible for payment are paid;
- No winning ticket is paid more than once;
- All statutory restrictions are observed; and
- Prize payment data is completely and accurately recorded.

The prize validation process requires considerable oversight because of the high visibility of the Lottery and the numerous prize payments and transactions.

**Objectives,
Scope, and
Methodology**

The purpose of our audit was to determine whether the Lottery's fiscal controls over the prize validation process are adequate and whether prize payments made by Lottery were legal and proper. We reviewed the Lottery's controls the over online and off-line (Scratcher) validation processes in the Lottery's Claims and Player Services Division and the Security Division. The period under review was from July 1, 2004, through December 1, 2005.

We performed our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, including tests of controls and other auditing procedures considered necessary under the circumstances.

The objectives of our audit were to determine whether:

- The Lottery's fiscal controls over the online and off-line (Scratcher) prize validation process are adequate;
- Prize payments were legal and proper; and
- The Lottery is complying with state laws, regulations, and policies with regards to prize payments.

The procedures in the audit included:

- Analyzing and evaluating the online and off-line (Scratcher) prize validation processes;
- Performing tests of procedural compliance and the propriety of prize payments, as deemed necessary;
- Reviewing work performed by any external audit organization or by the Lottery's Internal Audit Unit; and
- Reviewing the California Lottery Act, *State Administrative Manual*, and other applicable rules and regulations.

Conclusion

Our audit disclosed a control deficiency in the Lottery's administration of the prize validation process as described in the Findings and Recommendation section of this report. Without proper controls, the Lottery cannot ensure that errors or irregularities are not occurring and that prize payments are proper and valid.

**Views of
Responsible
Official**

The SCO issued a draft report on August 8, 2006. Joan Borucki, then Acting Director, responded by the attached letter dated September 12, 2006. Ms. Borucki generally agreed with the result of the audit.

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

Finding and Recommendation

**FINDING—
Batch Header Sheets
were inconsistently
completed**

The Lottery is not consistent in completing the Batch Header Sheet, used in documenting completed procedures for the prize validation process. During the audit, we noted that two of eleven Scratcher claims tested and one of eight online claims tested did not include initials on the Batch Header Sheet identifying the staff members who processed the claims. One of the eleven Scratcher claims tested did not identify on the Batch Header Sheet the staff member who verified the claim.

The draft *Lottery Policy and Procedure Manual*, dated January 2006, requires that Batch Header Sheets used for prize validation should be properly completed. A properly completed Batch Header Sheet will ensure that required procedures were followed and proper authorization and review were performed by authorized personnel.

Recommendation

The Lottery should follow proper procedures in processing online and Scratcher claims. Upon completion of a task listed on the Batch Header Sheet, Claims and Player Services staff members should initial the tasks completed. This will help ensure that payments on claims are proper and legal.

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



California Lottery

Headquarters

600 North Tenth Street

Sacramento CA 95814

www.calottery.com

September 12, 2006

Mr. Andy Finlayson, Chief
Operations Audit Bureau
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

I am pleased to forward the California State Lottery's (Lottery) response to the State Controller's Office (SCO) draft audit report for the Lottery's Prize Validation Process audit, dated August 8, 2006. One finding has been removed from the draft report, per a September 6, 2006 email received by the Lottery from the SCO.

Our response to your finding and recommendation follows:

SCO Finding – The Lottery did not follow their procedures for processing on-line and Scratchier claims. During the audit, we noted that two of eleven Scratchier claims tested and one of eight on-line claims tested did not have any initials on the Batch Header sheet identifying the staff that processed the claim through the various tasks. An additional one of eleven Scratchiers tested did not identify on the Batch Header the staff that "Verified" the claim.

SCO Recommendation – The Lottery should follow proper procedures in processing online and Scratchier claims. Upon completion of a task listed on the Batch Header Sheet, Claims and Player Services staff members should initial the tasks completed. This will help ensure payments on claims are proper and legal.

Lottery Response to SCO Finding:

We concur. The Lottery procedures are being updated to include specific instructions for claims initiated in Security or processed via Draw Management. The procedures will be completed by October 2, 2006.

Sincerely,


Joan M. Borucki
Acting Director

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>