

CALIFORNIA LOTTERY

Audit Report

ALCONE MARKETING GROUP CONTRACT

September 1, 2008, through August 31, 2010



JOHN CHIANG
California State Controller

May 2011



JOHN CHIANG
California State Controller

May 5, 2011

John Mass, Chairperson
California Lottery Commission
600 North Tenth Street
Sacramento, CA 95811

Dear Mr. Mass:

The State Controller's Office audited the California Lottery's (Lottery) monitoring of, and compliance with, the Alcone Marketing Group Contract for the period of September 1, 2008, through August 31, 2010.

Our audit did not disclose any significant deficiencies in the Lottery's monitoring of the contract.

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/sk

cc: John Menchaca, Commissioner
California Lottery Commission
Alex E. Fortunati, Commissioner
California Lottery Commission
Linh Nguyen, Acting Director
California Lottery
Michael Brennan, Deputy Director
Sales and Marketing Division
California Lottery
Michael T. Ota, Deputy Director
Finance Division
California Lottery
Roberto Zavala, Chief
Internal Audits
California Lottery

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Restricted Use	3

Audit Report

Summary

The State Controller's Office audited the California Lottery's (Lottery) monitoring of and compliance with the Alcone Marketing Group contract (No. 13285) for the period of September 1, 2008, through August 31, 2010.

The purpose of the audit was to determine whether the Lottery is complying with sound financial and program management practices in administration of the contract. The audit did not disclose any significant deficiencies in the Lottery's fiscal controls over payments and monitoring of the contract.

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 Lottery entered into a contract with Alcone Marketing Group for the period of September 1, 2008, through August 31, 2011, with an option to extend the agreement for up to three one-year terms. The contract included fees of \$40 million. The contractor agreed to provide the following services:

- Develop, design, and implement marketing promotions and produce consumer collateral and permanent point-of-sale (POS) materials for Lottery products
- Website services
- Research
- Lottery Account Team
- Administration

Objectives, Scope, and Methodology

This audit was performed to determine whether the California Lottery's fiscal controls over the monitoring of the Alcone Marketing Group contract are adequate and whether contract payments made by the Lottery are legal and proper.

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 ensuring that contract payments are legal and proper;
- Is abiding with state laws, regulations, and policies regarding the Alcone Marketing Group contract; and
- Is ensuring that the Contractor is providing the Lottery with specific deliverables according to the terms and conditions of the contract's Scope of Services.

Audit Scope

The audit period was September 1, 2008, through August 31, 2010, and included, but was not limited to, the following audit procedures:

- Reviewed the Alcone Marketing Group contract and subcontracts, contract law, regulations, rules, Lottery policies, and related accounting records;
- Reviewed work performed by any external audit organization, the Lottery's Internal Audits Office, or any other Lottery unit;
- Interviewed and observed individuals involved in the authorization and monitoring of the contract deliverables;
- Reviewed and evaluated any procedures that the Lottery put in place to monitor contract compliance;
- Obtained an understanding of the components of internal control sufficient to conduct the audit; and
- Performed tests of procedural compliance and tests of payments, as we deem necessary to the administration of the contract.

Conclusion

Our audit of the Alcone Marketing Group contract (No. 13285) for the period of September 1, 2008, through August 31, 2010, did not disclose any significant deficiencies in the Lottery's monitoring of the contract.

**Views of
Responsible
Officials**

We discussed our audit results with Leticia Saldivar, Chief of Consumer Marketing and Advertising, Sales and Marketing Division, and Roberto Zavala, Chief of Internal Audits, during our exit conference held on February 17, 2011. No reportable findings were disclosed during the audit; therefore, they agreed 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

May 5, 2011

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>