

# **CALIFORNIA LOTTERY**

Audit Report

## **DRAW MANAGEMENT PROCESSES AND PROCEDURES**

*April 1, 2004, through March 31, 2007*



**JOHN CHIANG**  
California State Controller

November 2007



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

November 9, 2007

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

Dear Ms. Borucki:

The State Controller's Office audited the California Lottery's (Lottery) Draw Management Processes and Procedures for the period of April 1, 2004, through March 31, 2007.

Our audit disclosed that the Lottery's Draw Management processes and procedures were adequately controlled to safeguard against any losses to the State; the processes and procedures complied with laws, rules, and regulations; and prizes were awarded in a legal and proper manner.

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:wm

cc: John Mass, Chairman  
California Lottery Commission  
Rachel Montes, Commissioner  
California Lottery Commission  
Manuel Ortega, Commissioner  
California Lottery Commission  
Patt Eberhart, Director  
Finance and Administration  
California Lottery

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) Draw Management processes and procedures for the period of April 1, 2004, through March 31, 2007. The last day of fieldwork was September 26, 2007.

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 sound financial and program-management practices.

Our audit disclosed that the Lottery's Draw Management processes and procedures were adequate to safeguard against any losses to the State and that they complied with laws, rules, and regulations. In addition, prizes were awarded in a legal and proper manner.

## 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 Draw Management Section is currently within the Security Division. The Security Division's Draw Management Section conducts all draws with a representative from a firm of independent certified public accountants. The Lottery Director approves draw procedures governing the draws. The Draw Management Section's primary responsibilities are the following.

- Coordinate and approve all procedural and divisional activities related to all CSL 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 offers the following draws to the public.

- Big Spin Show—Eligibility for participation in a prize drawing on the Big Spin Show is tied to the purchase of a Lottery product. The commonly used method to obtain eligibility is the purchase of an Instant Game ticket. Draw games have also been designed to give players the opportunity to win prize money on the show.
- SuperLOTTO Plus—The Lottery’s highest-selling Draw Game with annual sales over \$730 million. Draws are conducted twice weekly (on Wednesdays and Saturdays) using mechanical devices (i.e., ball machines).
- Mega Millions—The largest multi-state lottery game in North America, Mega Millions is available to play in 11 other states: Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. California is the 12<sup>th</sup> state to offer Mega Millions. Mega Millions is the California Lottery’s second-highest selling draw game, with annual sales over \$450 million.
- Hot Spot—Draws are conducted on a daily basis every five minutes during gaming hours using a Lottery-owned and operated computer programmed solely for that purpose. The Hot Spot is the Lottery’s third highest-selling draw game, with annual sales around \$160 million.
- Fantasy 5, Daily 3, and Daily Derby—Draws are conducted on a daily basis using a Lottery-owned and operated computer. Fantasy 5, Daily 3, and Daily Derby have annual sales of \$148 million, \$143 million, and \$11 million, respectively.

## **Objectives, Scope, and Methodology**

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

- Maintained adequate internal controls over the draw processes and procedures, to safeguard against any losses to the State;
- Abided by laws, rules, and regulations in performing draw processes and procedures; and
- Awarded draw prizes in a legal and proper manner.

The period under review will be from April 1, 2004, through March 31, 2007.

The audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States of America, including tests of controls and such other auditing procedures considered necessary under the circumstances.

The audit scope included:

- Reviewing the California Lottery Act and other applicable rules and regulations;
- Reviewing work performed by any external audit organizations, by the Lottery's Internal Audits Office, or by any other Lottery unit;
- Interviewing and observing individuals involved in the monitoring, and performing and draw processes and procedures;
- Documenting internal controls, and analyzing and devaluating draw processes and procedures; and
- Testing 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. In addition, prizes were awarded in a legal and proper manner.

## **Views of Responsible Official**

We discussed our audit results with Kathy Johnson, Audit Specialist, Internal Audits, during the exit conference held on September 26, 2007. Ms. Johnson 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

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

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