

# **CALIFORNIA LOTTERY**

Audit Report

## **GTECH CORPORATION CONTRACT**

*July 1, 2006, through June 30, 2008*



**JOHN CHIANG**  
California State Controller

April 2009



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

April 17, 2009

Joan M. Borucki, Director  
California Lottery  
600 North Tenth Street  
Sacramento, CA 95811

Dear Ms. Borucki:

The State Controller's Office audited the California Lottery's (Lottery) monitoring of and compliance with the GTECH Corporation contract for the period of July 1, 2006, through June 30, 2008.

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/vb

cc: John Mass, Chairman  
California Lottery Commission  
Cynthia Flores, Commissioner  
California Lottery Commission  
C.C. Yin, Commissioner  
California Lottery Commission  
Michael T. Ota, Deputy Director  
Finance Division  
California Lottery  
Roberto Zavala, Chief  
Internal Audits  
California Lottery

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) monitoring of and compliance with the GTECH Corporation contract (Contract No. 7871) for the period of July 1, 2006, through June 30, 2008.

The purpose of our 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."

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.

GTECH Corporation has been awarded, through the "Request for Proposal" bid process, all online gaming contracts since the Lottery's inception in 1984. Following is a timeline for the most recent contract awarded to GTECH for \$300 million:

### RFP, Contract and Contract Amendments Timeline

Request for Proposal	December 6, 2001	
Effective Contract date	October 14, 2003	
Contract Amendment #A01	October 4, 2002	To exchange required goods for optionals
Contract Amendment #A02	June 24, 2003	Clarify Performance Bond coverage
Contract Amendment #A03	October 6, 2003	Retail equipment and supplemental services Deferred software development items
Contract Amendment #A04	August 17, 2005	System acceptance with exceptions
Contract Amendment #A05	September 5, 2006	GTECH merger with Lottomatica

Per Section 6.2, "Term of Contract," the *initial* contract term started the date of final acceptance of the gaming system or October 13, 2003, whichever was later. The term of the contract operation is six years, from October 14, 2003, through October 13, 2009. The system operation portion of the contract can be unilaterally extended (Section 6.2.1, "Option to Extend") under the same terms and conditions for up to four additional one-year periods.

The contract requires considerable oversight, due to:

- The high visibility of the Lottery's online gaming system;
- Numerous gaming promotions;
- Financial assessments may be collected by the Lottery in accordance with contract provisions for GTECH Corporation's non-compliance with the contract terms; and
- The current contract has shifted several work (payment) functions from the Lottery to GTECH Corporation, increasing GTECH Corporation's scope and authority over payments.

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

The purpose of the audit was to determine whether the Lottery's fiscal controls over payments and monitoring procedures are adequate to ensure that GTECH Corporation complies with the terms and conditions of the GTECH Corporation contract (Contract No. 7871).

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 specific objectives of the audit were to determine whether:

- The contract payments are legal and proper;
- The procedures the Lottery uses to monitor the contract are adequate to ensure compliance with terms and conditions of the contract; and
- The Lottery is abiding with state laws, rules, regulations, and policies with regards to the contract.

The procedures we performed during the audit included:

- Reviewing the contract and amendments, contract laws, regulations, rules, Lottery policies and related accounting records; reviewing work performed by any external audit organizations, the Lottery's Internal Audits Office, or any other Lottery unit; interviewing and observing individuals involved in the development, authorization, and monitoring of the contract deliverables;

- Obtaining an understanding of components of internal control sufficient to conduct the audit; and
- Performing tests of procedural compliance and tests of payments.

**Conclusion**

We discussed our audit results with Marty Rubio, Audit Manager, Internal Audits, on February 27, 2009. 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

April 17, 2009

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Division of Audits  
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