

CALIFORNIA LOTTERY

Audit Report

MUSE COMMUNICATIONS CONTRACT AUDIT

February 1, 2007, through May 31, 2009



JOHN CHIANG
California State Controller

October 2009



JOHN CHIANG
California State Controller

October 16, 2009

John Mass, Chairperson
California Lottery
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 Muse Communication contract for the period of February 1, 2007, through May 31, 2009.

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: Cynthia Flores, Commissioner
California Lottery Commission
C.C. Yin, Commissioner
California Lottery Commission
Joan M. Borucki, Director
California Lottery
Michael T. Ota, Deputy Director
Finance Division, California Lottery
Michael Brennan, Deputy Director
Sales and Marketing Division, California Lottery
Richard Woonacott, Acting Deputy Director
Security/Law Enforcement Division, California Lottery
Roberto Zavala, Chief
Internal Audits, California Lottery

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Audit Report

Summary

The State Controller's Office audited the California Lottery's (Lottery) monitoring of and compliance with the Muse Communications contract (No. 11559) for the period of February 1, 2007, through May 31, 2009.

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

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 Muse Communications for the period of February 1, 2007, through January 31, 2010, with an option to extend three years. The contract included funding of \$5 million. The contractor agreed to provide advertising services for California's African Consumer Market. The Lottery required the contractor to have in-depth knowledge of the California African American Consumer Market (AACM).

Objectives, Scope, and Methodology

This audit was performed to determine whether the California Lottery's fiscal controls over the monitoring of the Muse Communication 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 objectives of the audit were to determine whether the Lottery:

1. Is ensuring that contract payments are legal and proper;
2. Is abiding with state laws, rules, regulations, and policies regarding the Muse Communications contract;
3. Is monitoring the contract for compliance.

Audit Scope

The audit period was February 1, 2007, through May 31, 2009, and included, but was not limited to, the following audit procedures:

4. Reviewed the Muse Communications contract and subcontracts, contract laws, regulations, rules, Lottery policies, and related accounting records;
5. Reviewed work performed by any external audit organization or by the Lottery's Internal Audit Office, or by any other Lottery unit;
6. Interviewed and observed individuals involved in authorizing and monitoring the Muse Communications contract;
7. Performed tests of procedural compliance and tests of payments, as deemed necessary to the administration of the contract.

Conclusion

Our audit of the Muse Communications contract for the period of February 1, 2007, through May 31, 2009, did not disclose any significant deficiencies in the Lottery's monitoring of the contract.

Views of Responsible Officials

We discussed our audit results with Michael Brennan, Deputy Director, Sales and Marketing Division, and Marty Rubio, Audit Manager, Internal Audits, during our exit conference held on September 21, 2009. 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

October 16, 2009

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