

CALIFORNIA LOTTERY

Audit Report

SCRATCHER GAME CONTRACTS AUDIT

January 1, 2007, through March 31, 2009



JOHN CHIANG
California State Controller

October 2009



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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 its Scratcher game contracts with Creative Games International, Inc.; Pollard Banknote Limited Partnership; and Scientific Games International, Inc. for the period of January 1, 2007, through March 31, 2009.

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

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
Richard Woonacott, Acting Deputy Director
Security/Law Enforcement Division
California Lottery
Michael Brennan, Deputy Director
Sales and Marketing 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 its Scratcher game contracts with Creative Games International, Inc. (Contract No. 10870); Pollard Banknote Limited Partnership (Contract No. 10868); and Scientific Games International, Inc. (Contract No. 9513) for the period of January 1, 2007, through March 31, 2009.

The purpose of the audit is to determine whether the Lottery is complying with sound financial and program management practices in administration of the contracts.

The audit did not disclose any significant deficiencies in the Lottery's fiscal controls over payments and monitoring of the contracts.

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.

Contracts and Amendments

The Lottery entered into the contracts for the period of July 1, 2005, through June 30, 2009, with Creative Games International, Inc.; Pollard Banknote Limited Partnership; and Scientific Games International, Inc. to provide the following services of Scratcher instant tickets production:

- Marketing planning and support
- Game development and ticket production
- Sales support
- Delivery
- Technical
- Plant and security

Creative Games International (CGI), Inc./GTECH Printing Corporation (GTECH) (Contract No. 10870)

The original CGI contract provides supplemental instant ticket (Scratcher) products for the period of July 1, 2005, through June 30, 2009, and included funding of \$2 million. The contract amendments are as follows:

- Amendment A01—To amend contractor’s name to GTECH
- Amendment A02—To increase contract funding from \$2 million to \$12 million, and to extend the contract term through June 30, 2013

Pollard Banknote Limited Partnership (PB) (Contract No. 10868)

The original PB contract provides supplemental Scratcher products for the period of July 1, 2005, through June 30, 2009, with the option to extend up to four years, and included contract funding of \$4 million. Since the original contract was initiated, there were three amendments, the contract amendments are as follows:

- Amendment A01—To amend contractor’s name from Pollard Banknote Limited to Pollard Banknote Limited Partnership
- Amendment A02—To increase contract funding from \$2 million to \$12 million
- Amendment A03—To increase contract funding from \$10 million to \$20 million and change the Lottery Contract Manager

Scientific Games International, Inc. (SGI) (Contract No. 9513)

The original SGI contract provides Scratcher products for the period of July 1, 2005, through June 30, 2009, and included contract funding of \$33 million. Subsequent to our audit period, the Lottery Commission held a meeting on May 13, 2009, and approved the following contract amendments:

- Amendment—To increase contract funding from \$33 million to \$58 million, and to extend the contract term through June 30, 2013

Objectives, Scope, and Methodology

This audit was performed to determine whether the California Lottery’s fiscal controls over the monitoring of the contracts of Creative Games International, Inc.; Pollard Banknote Limited Partnership; and Scientific Games International, Inc. (Scratcher game contracts) 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 ensuring internal controls are adequate and in compliance with terms and conditions of the contract;
- Is abiding with state laws, rules, regulations, and policies with regard to the Scratcher game contracts;
- Is monitoring the contracts for compliance.

The procedures we performed during the audit included:

- Reviewing the Scratcher game contracts and subcontracts, contract laws, regulations, rules, Lottery policies, and related accounting records;
- Reviewing work performed by any external audit organization or by the Lottery's Internal Audits Office or by any other Lottery unit;
- Interviewing and observing individuals involved in authorizing and monitoring the Scratcher game contracts;
- Performing tests of procedural compliance and tests of payments, as we deemed necessary, in the administration of the three Scratcher game contracts.

Conclusion

Our audit of the Scratcher game contracts for the period of January 1, 2007, through March 31, 2009, did not disclose any significant deficiencies in the Lottery's monitoring of the contracts.

Views of Responsible Officials

We discussed our audit results with Michael Brennan, Deputy Director, Sales and Marketing Division, and Roberto Zavala, Chief, Internal Audits, during our exit conference held on August 19, 2009. No reportable 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

October 16, 2009

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