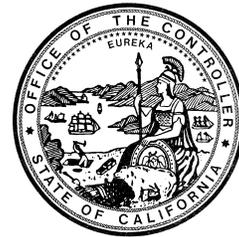


News Release



Controller of the State of California - Kathleen Connell

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FOR IMMEDIATE RELEASE

LOTTERY AUDIT CHARGES "SPECIAL TREATMENT" OF VENDOR COST SCHOOLS FUNDS FOR 130 STUDENTS Connell Urges Legislation to Boost Accountability

SACRAMENTO, Nov. 13 -- Citing persistent control deficiencies that indicate an unwillingness by the California State Lottery (CSL) to address chronic problem areas, State Controller Kathleen Connell today called for stepped up accountability for the Lottery. In connection with the release of an audit report critical of the Lottery's management of its contract with on-line gaming vendor GTECH, Connell urged legislation to require the Lottery to report to the State Legislature on action plans and timelines to respond to audit findings and recommendations by outside agencies such as the Controller's Office.

"The most costly finding of this particular audit involves a questionable management decision that has left well over half a million dollars in uncollected penalties against GTECH, an amount that translates into funding for 130 school children. But most disturbing is what appears to be a continued pattern of special treatment and disregard of contract provisions," said Connell. "Contracts exist to hold vendors accountable and to ensure the Lottery operates efficiently in fulfilling its mission for our schools. Yet the lax enforcement could lead one to conclude that some of the Lottery's contracts are written in erasable ink."

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Connell continued, "Since the Lottery does not undergo an annual Legislative budget review like all state agencies, there is little accountability to the people of California and virtually no assurance that potential problems and risks are being addressed promptly and fully. The legislation I propose will raise the bar of accountability to ensure that California's school children -- not vendors -- are the beneficiaries of the Lottery."

While the Lottery has addressed many findings raised in the course of ongoing audits by the Controller's Office, Connell said there continue to be a number of key areas that have been ignored or brushed aside, particularly in the area of contract management.

The audit report released today by Connell analyzed the Lottery's management of its contract with GTECH from October 1993 through August 1995. The Lottery's disregard for contract provisions was exemplified in its handling of a May 1995 incident, when GTECH inadvertently closed wagering pools for three on-line games early (Super Lotto, Daily 3, Decco). The Lottery originally requested a total of \$686,264 (\$629,290 in lost profits, and \$56,974 in extra draw prizes) in penalties from GTECH, as stipulated in the contract. GTECH remitted the funds for extra draw prizes; however, instead of collecting the lost profits, Lottery officials agreed to GTECH's plan to have the vendor install and maintain 75 additional self-service terminals (SSTs) which GTECH and CSL claimed would generate at least \$2 million. **As of September 1996, more than nine months after the agreement, only nine new terminals could be confirmed as installed or ready for installation. In addition, the audit report contends that the \$2 million figure is not supported** and notes that if the Lottery had, in fact, determined that the additional terminals could generate this much money, it should have contracted with GTECH to install them *without* forfeiting penalty fees.

"The Lottery essentially laid a bet with the penalty funds, apparently in hopes of a bigger pay-off in the future," said Connell. "But the fact remains, the schools are still waiting for hundreds of thousands of dollars because of the unwise deal cut by the Lottery and GTECH."

The Controller's Office also found discrepancies between CSL's and GTECH's figures on penalties for delays in repairing broken terminals, where the Lottery simply accepted GTECH's assessment, without requesting or reviewing any support documentation.

"This report begs a long-standing question many have about the Lottery: who's running who?" asserted Connell. "The Lottery's failure to force GTECH to honor its contractual obligations and its apparent unwillingness to challenge GTECH on fiscal decisions contribute to already shaken public trust in the Lottery."

In an overview of the report, the Controller also expressed concern over the Lottery's lack of cooperation with auditors. She noted that evasive or non-responsive answers to auditors' questions and unwillingness to provide requested documentation impaired the auditors, unnecessarily prolonging the time required to complete the final report: "Our goal is to help the Lottery improve its fiscal effectiveness, so auditors share their concerns in the course of field work. It is troubling that the Lottery's response perpetuates inaccuracies, but most disturbing is the fact that top management shows no concern regarding the lack of contract enforcement raised in this audit report.

"We need every available dollar to educate California's children," concluded Connell. "By joining with the Legislature to hold the Lottery accountable, I hope that we will finally begin seeing maximum dollars flowing to California schools in a timely fashion."

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