

CALIFORNIA LOTTERY

Review Report

IMPLEMENTATION OF STATE CONTROLLER'S OFFICE AUDIT RECOMMENDATIONS

July 1, 2007, through June 30, 2010



JOHN CHIANG
California State Controller

June 2011



JOHN CHIANG
California State Controller

June 10, 2011

John Mass, Chairperson
California Lottery Commission
600 North Tenth Street
Sacramento, CA 95811

Dear Mr. Mass:

The State Controller's Office (SCO) completed a review of prior SCO audit findings for the California Lottery (Lottery) and reviewed the status of implementing any resulting recommendations, for audit reports issued for the period of July 1, 2007, through June 30, 2010. Our review disclosed that the Lottery did not implement corrective action as follows:

- The asset records were incomplete and inaccurate (Fixed Asset Cycle Report issued on November 9, 2007).
- The asset acquisitions and dispositions were not reconciled to the asset tracking system (Fixed Asset Cycle Report issued on November 9, 2007).
- The revolving fund expenditures were not submitted to SCO in a timely manner (Office Revolving Fund Report issued on December 17, 2008).
- Noncompliance with established procedures for approving contract payments (KPMG Draw Audit and Review Services Report issued on December 31, 2008).
- Noncompliance with Lottery vehicle accident procedures (Fleet Management Program Report issued on March 27, 2009).

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 Menchaca, Commissioner
California Lottery Commission
Alex E. Fortunati, Commissioner
California Lottery Commission
Linh Nguyen, Acting Director
California Lottery
Terry Murphy, Deputy Director
Operations Division
California Lottery
Michael T. Ota, Deputy Director
Finance Division
California Lottery
Roberto Zavala, Chief
Internal Audits
California Lottery

Contents

Review Report

Summary	1
Background	3
Objectives, Scope, and Methodology	3
Conclusion	4
Views of Responsible Official	4
Restricted Use	4
Findings and Recommendations	5
Attachment—California Lottery’s Response to Draft Report	

Review Report

Summary

This report summarizes the major findings and recommendations from audit reports the State Controller's Office (SCO) issued from July 1, 2007 through June 30, 2010. The purpose of the review is to identify what actions, if any, the Lottery has taken in response to the SCO findings and recommendations. The Lottery's actions that appear in italics in the Review Findings section are areas of concern or issues that have not been adequately addressed. A summary of the findings is as follows.

The majority of the SCO recommendations have been implemented.

Of the 20 recommendations made in audit reports for the period of July 1, 2007, through June 30, 2010, the following 15 recommendations have been implemented or resolved:

- The Lottery updates the Epicor system's customer folder to reflect the issue date of the final dunning letters and created a checklist (Review Finding 1).
- The Lottery implemented procedures for ensuring that clearances are made prior to an employee's separation from the Lottery (Review Finding 2).
- The Lottery reviews the outstanding checks list and stops payment on checks one week prior to the end of the one-year period of negotiability (Review Finding 3).
- The Lottery currently has not used any government account for any non-governmental purpose or donated any property acquired through the use of public funds (Review Finding 6).
- The Lottery is following the established policies and procedures approved by the Lottery Commission to ensure that expenditures are for appropriate Lottery business-related expenses (Review Finding 10).
- The Lottery ensures that it consistently follows appropriate review procedures to ensure that travel claims are accurately processed in accordance with applicable state laws and regulations (Review Finding 11).
- The Lottery adheres to Department of Personnel Administration rules to obtain prior approval for excess lodging costs (Review Finding 12).
- Lottery officials review the vendor receipts and supporting documentation to ensure Cal-Card purchases are proper and supported (Review Finding 14).
- The Lottery strengthened the Cal-Card statement review process to detect instances where cardholders are splitting purchases to circumvent spending limits (Review Finding 15).

- The Lottery is ensuring that each Cal-Card cardholder's file contains a set of standardized forms and supporting documentation identifying the cardholder's purchase limit, and any card limit increases (Review Finding 16).
- The Lottery's Fleet Management Unit is ensuring that the Driver/Vehicle Transfer Report (CSL 1113) is properly approved, received, and included in its files (Review Finding 18).
- The Lottery regularly reviews the Voyager card fuel report to identify any irregular fuel card purchases (Review Finding 19).
- The Lottery is now complying with the requirement that drivers on official state business must complete defensive driver training (see Review Finding 20).

Although the Lottery did not implement our recommendations, two issues have been resolved:

- The Lottery is complying with the Department of Personnel Administration guidelines regarding the employee appreciation event (Review Finding 7).
- The Lottery is complying with the Department of Personnel Administration guidelines regarding employee training costs (Review Finding 8).

The Lottery partially or substantially implemented one of the SCO recommendations.

Of the 20 recommendations put forth by the SCO, the Lottery has partially implemented one recommendation.

- The audit disclosed that the Lottery officials ensure that the Accident Report (Std. 270) and Vehicle Accident Investigation Report (CSL 0938) are properly completed within 48 hours. However, our review disclosed that four of the six files did not have repair estimates on file. The estimates are required within seven to ten days of the date of the accident (Review Finding 17).

The Lottery has not implemented several SCO recommendations.

The Lottery still has not implemented 4 of the 20 recommendations made by the SCO as follows:

- The Lottery did not perform an inventory count in the audio-visual room. Also, the Lottery did not conduct a periodic search for assets purchased with credit cards by reviewing the supporting documentation for credit card purchases kept by AOTB (Review Finding 4).
- The Lottery did not create a general ledger report that details all acquisitions containing assets that have been designated as "required to be tagged." The report should be used to reconcile asset acquisitions to the CAT system (Review Finding 5).

- The Lottery did not schedule unscheduled revolving expenditures for reimbursement or, if necessary, submit them as a write-off to the Board of Control (Review Finding 9).
- The Lottery did not follow the procedures for approving invoices as outlined in the California State Lottery Contract Manager’s Handbook to ensure that payments are proper and legal and reduce the risk of making excessive payments to the contractor (Review Finding 13).

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.

Objectives, Scope, and Methodology

The review was performed to determine whether the Lottery has implemented corrective actions that adequately addressed the findings as presented in the following nine SCO audit reports:

<u>Audit Report Title</u>	<u>Audit Period</u>	<u>Issue Date</u>
Accounts Receivable Cycle	01/01/06–12/31/07	04/25/07
Personnel and Payroll Cycle	01/01/06–12/31/07	04/25/07
Cash Disbursements Cycle	01/01/06–12/31/07	08/22/07
Fixed Assets Cycle	01/01/06–12/31/07	11/09/07
\$20 Billion to Education Employee Recognition Event	10/01/07–01/31/08	02/29/08
Office Revolving Fund Expenditures	07/01/03–12/31/07	12/17/08
KPMG Draw Audit and Review		
Services Contract	01/01/06–04/30/08	12/31/08
Cal-Card Program	01/01/03–12/31/07	02/11/09
Fleet Management Program	07/01/06–06/30/08	03/27/09

For this report, the following procedures were performed to determine whether corrective action had been taken:

- Reviewed audit findings from the prior audits;
- Interviewed Lottery staff to determine the corrective actions taken by the Lottery; and
- Performed limited tests and documented the Lottery resolution of the recommendations made in the findings.

Conclusion

The SCO found that, out of 20 recommendations, the Lottery has not implemented corrective action on four recommendations and partially or substantially implemented corrective action on one recommendation. The Lottery has taken corrective action on 15 recommendations; on 2 of the 15 recommendations, the issues were resolved. The Lottery should implement corrective action pertaining to the prior SCO recommendations discussed in this report to strengthen its internal controls.

Views of Responsible Official

The SCO issued a draft report to the Lottery dated April 20, 2011. Linh Nguyen, Lottery Acting Director, responded by the attached letter dated May 16, 2011. Mr. Nguyen agreed with all five findings.

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

June 10, 2011

Findings and Recommendations

SAM 20000 Audit: Accounts Receivable Cycle Report (issued April 25, 2007)

REVIEW FINDING 1— Lack of additional collection efforts

The audit disclosed that the Accounting Operations & Tax Bureau (AOTB) did not update Epicor system's customer folder to reflect the issued date of final dunning letter. Thus, the receivables were not referred to the Financial Reporting Bureau (FRB) for further collection efforts. Furthermore, staff members assigned to update the system with the issue date no longer have access to the appropriate folder. As a result, additional collection efforts have not been applied to the six accounts receivable created during our audit period beginning January 1, 2006.

The SCO recommended that the Lottery should update the Epicor system's customer folder with the issue date of the final dunning letters and create a checklist in each file to document the:

- Issue date of the dunning letters;
- Date the receivable was deferred to FRB; and
- Date the receivable was settled or discharged.

In addition, AOTB staff should send a copy of the final dunning letter to the AOTB Supervisor and/or FRB Collection Unit. The AOTB Supervisor and/or FRB Collection Unit should update/confirm that the Epicor system's customer folder contains the issue date of the final dunning letter.

Lottery's Action: Corrective action implemented.

The Lottery updates the Epicor system's customer folder to reflect the issue date of the final dunning letters and created a checklist in each file to document the:

- Issue date of the dunning letters;
- Date the receivable was deferred to FRB; and
- Date the receivable was settled or discharged.

SAM 20000 Audit: Personnel and Payroll Cycle (issued April 25, 2007)

REVIEW FINDING 2— Employee separation notices

The Lottery does not maintain adequate controls for ensuring that clearances are made prior to an employee's separation from the Lottery. The Lottery uses an Employee Separation Notice as a checklist to collect funds or property due back to the State prior to the employee's separation date. Accounting and property clearances are either not being performed or are being performed after the employee's separation date.

The SCO recommended that the Lottery institute controls to ensure that prior to employee separation dates, the Personnel Office receives and accounts for Employee Separation Notices, and verifies that accounting and property clearances have been performed.

Lottery's Action: Corrective action implemented.

The Lottery implemented procedures for ensuring that clearances are made prior to an employee's separation from the Lottery.

SAM 20000 Audit: Cash Disbursement Cycle Report (issued August 22, 2007)

REVIEW FINDING 3— Lack of controls over uncashed agency checks

The Lottery is not processing uncashed or unclaimed Revolving Fund and General Cash checks. Specifically, the Lottery is not reviewing the outstanding checks listing and stopping payment on checks one week prior to the end of the one-year period of negotiability.

The SCO recommended that the Lottery should include a review of outstanding checks during the bank reconciliation and stop payment on stale-dated checks in accordance with SAM sections 8042 and 8045.

Lottery's Action: Corrective action implemented.

The Lottery reviews the outstanding checks list and is stopping payment on checks one week prior to the end of the one-year period of negotiability.

SAM 20000 Audit: Fixed Assets Cycle Report (issued November 9, 2007)

REVIEW FINDING 4— Asset records are incomplete and inaccurate

The Lottery has been improving its accounting for fixed assets by implementing new procedures and strengthening controls. Our testing of recently acquired assets indicates that these procedures are working properly and that recently acquired assets are properly accounted for. However, despite these improvements the Lottery still needs to locate and correct errors originating before the improvements were implemented.

The SCO recommended that the Lottery should take greater care in performing the physical inventory. In particular, the Lottery should perform another inventory count in the audio-visual room because four of the nine unaccounted-for assets were located in the audio-visual room. Also, the Lottery should conduct a periodic search for assets purchased with credit cards by reviewing the supporting documentation for credit card purchases kept by AOTB.

Lottery's Action: Corrective action not implemented.

The Lottery did not perform inventory count in the audio-visual room. In addition, the Lottery did not conduct a periodic search for assets purchased with credit cards by reviewing the supporting documentation for credit card purchases kept by AOTB.

The Lottery's Operations Division developed and approved a project charter that will reconfigure the Epicor software and eliminate the use of the Capital Asset Tracking System (CATS). This will serve as an interim solution until the completion of the Enterprise Resource Planning project by March 15, 2011.

California Lottery's Response

Since the exit conference in December 2010, an inventory of the audio-visual room has been completed by the Lottery's Division of Operations. The inventory was verified and recorded.

The Lottery's Contracts and Procurement Services Section (CPSS) reviews all credit card statements and flags property that appears to meet asset inventory requirements. This information is then communicated to the purchasing program and AOTB for their review and processing for tagging.

SCO's Comment

The California Lottery agrees with the finding and is addressing the SCO's recommendation. We will follow up on the Lottery's corrective actions at a later date to determine proper implementation.

REVIEW FINDING 5— Asset acquisitions and dispositions are not reconciled to the Capital Asset Tracking System (CATS)

The Lottery lacks procedures for periodically reconciling asset acquisitions and dispositions to CATS. Such procedures would enable Lottery management to ensure that all asset acquisitions have been entered into CATS. Also, CATS cannot produce a standardized report that details assets that have been removed from CATS. In the absence of such a report, Lottery management cannot monitor the removal of records from CATS to determine if the removals were properly authorized and accurately recorded.

The SCO recommended that the Lottery create a general ledger report that details all acquisitions containing assets that have been designated as "required to be tagged." The report should be used to reconcile asset acquisitions to CATS. In addition, the Lottery should either disable a user's ability to delete records from CATS or create a report that can identify all assets removed from CATS system to reconcile the removed assets to the approved asset dispositions of the Property Survey Reports

Lottery's Action: Corrective action not implemented.

The Lottery did not create a general ledger report that details all acquisitions containing assets that have been designated as "required to be tagged." The report should be used to reconcile asset acquisitions to CATS.

The Lottery's Operations Division developed and approved a project charter that will reconfigure the Epicor software and eliminate the use of Capital Asset Tracking System (CATS). This will serve as an interim solution until the completion of the Enterprise Resource Planning project by March 15, 2011.

California Lottery's Response

The Lottery's Division of Operations Division and Division of Finance are in the process of modifying the financial system (Epicor) to track assets. This modification will replace the Division of Operations' CAT

System currently used to track assets, thereby eliminating the need to reconcile the two systems. When this modification is completed a physical inventory of all Lottery assets will be performed. This modification is scheduled for completion by October 2011.

SCO's Comment

The California Lottery concurs with the finding and is modifying financial system to track assets. We will follow up on the Lottery's corrective actions at a later date to determine proper implementation.

\$20 Billion to Education Report (issued February 29, 2008)

REVIEW FINDING 6— Inappropriate use of the general cash fund and office revolving fund for charitable transactions and lack of legal authority to donate materials acquired through the use of public funds

Through the use of its general cash fund (a State account), the Lottery made a contribution of \$2,558 to the Poway School District Fire Relief Fund. In addition, though the use of its office revolving fund, (a State account), the Lottery donated table decorations from the employee recognition event or valued at \$1,872 to the North Sacramento Unified School District. The use of State accounts or donation of properties acquired through the use of public funds is inappropriate.

The SCO recommended that the Lottery should not use any governmental account for any non-governmental purpose or donate any property acquired through the use of public funds.

Lottery's Action: Corrective action implemented.

The Lottery currently has not used any governmental account for any non-governmental purpose or donated any property acquired through the use of public funds.

REVIEW FINDING 7— Employee appreciation segment of event is not appropriate use of public funds

The Lottery spent \$29,074 on an employee appreciation event. These costs provided employees, retirees, and their guests with hors d'oeuvres, a no-host bar, and a full-course prime rib dinner with dessert. In addition, entertainment was provided by a disc jockey and gifts were provided to employees. As such, the expenses do not fit the mission of the Lottery and are an inappropriate use of public funds.

The SCO recommended that the Lottery establish appropriate accounts receivable procedures to reimburse the State for these unallowable expenditures. We are not aware of any administrative remedy that the Lottery could pursue to repay the Lottery funds improperly spent.

Lottery's Action: None; issue resolved.

The issue has been resolved based on subsequent events and tests of current event expenditures. The Lottery is complying with the Department of Personnel Administration guidelines regarding the employee appreciation event.

**REVIEW FINDING 8—
Training portion of
event did not constitute
an appropriate use of
public funds**

The Lottery employee appreciation event on November 8, 2007, included expenditures, totaling \$17,262, that were purportedly incurred for the purpose of employee training. This training was not only for employees, but also for their guests, and retirees. The training consisted of mock Lottery games for entertainment in which the employees, retirees, and guests received prizes. We determined that these costs were not for employee training, but solely for entertaining and rewarding the employees, retirees, and their guests. Therefore, the expenditures do not fit the mission of the Lottery and are an inappropriate use of State funds.

The SCO recommended that the Lottery establish appropriate accounts receivable procedures to reimburse the State for these unallowable expenditures. We are not aware of any administrative remedy that the Lottery could pursue to repay the Lottery funds improperly spent.

Lottery's Action: None; issue resolved.

The issue has been resolved based on subsequent events and tests of current event expenditures. The Lottery is complying with the Department of Personnel Administration guidelines regarding employee training costs.

Office Revolving Fund Report (issued December 17, 2008)

**REVIEW FINDING 9—
Revolving fund
expenditures not
submitted to SCO in a
timely manner**

The Lottery does not maintain procedures over, or a review process for, the aged unscheduled revolving fund expenditure. Unscheduled revolving fund expenditures are those invoices that are being held by the Lottery pending submission to the SCO for payment. Our audit disclosed that 119 of 497 (24%) unscheduled revolving fund expenditures totaling \$267,218 of \$584,660 (46%) were more than 60 days outstanding as of December 31, 2007.

The SCO recommended that the Lottery should establish procedures for reviewing unscheduled revolving fund payments that are aged beyond 60 days, determine what the unscheduled revolving fund payments represent, and schedule unscheduled revolving expenditures for reimbursement or if necessary submit them as a write-off to the Board of Control.

Lottery's Action: Corrective action not implemented.

The Lottery did not schedule the unscheduled revolving expenditures for reimbursement nor, if necessary, submit them as a write-off to the Board of Control.

There was \$399,911 in unscheduled vouchers identified in the Lottery's unscheduled revolving fund list dated June 30, 2010, that were more than 60 days old. Of the \$399,911, \$108,643 was subsequently scheduled as of October 31, 2010, and submitted to the SCO for payment, and \$12,203 was cleared based on the documentation relating to "\$20 Billion to Education Event." The sum of \$232,875 was rejected by the SCO because the vendor's name was incorrect and the contract was expired. Subsequently, on December 9, 2010, the Lottery Commission ratified an amendment to the contract to change the contractor's name from HSM Electronic Protection Services, Inc. to Stanley Convergent Security Solutions, Inc.

The net unscheduled vouchers stand at \$46,190 as of October 31, 2010. Of this amount, \$28,555 was noted in the prior audit and \$17,635 is identified in the current review. The reasons the Lottery gave for not scheduling the voucher (more than 60 days old) were that there were system problems, and a lack of supporting documentation and management approval.

The Lottery's Finance Division developed a project charter that will address and resolve outstanding prior year audit issues pertaining to the Office Revolving Fund (ORF). In addition, the project charter will establish controls to avoid repeat and new audit findings. The project charter will include processes and procedures for reconciliation of the ORF in a timely manner to ensure prompt reimbursement of the ORF. Lottery management expects the project charter to be fully implemented by the summer of 2011.

California Lottery's Response

The Lottery has updated its procedures for reconciling the Office Revolving Fund, provided comprehensive training to staff involved in the payment process, developed a new management report that tracks compliance with established performance standards and procedures, increased review of monthly aged revolving fund vouchers and exceptions, and refined its approval process for the use of the revolving fund. As of October 31, 2010 approximately half of the \$45,190 in unscheduled vouchers has been cleared. The Lottery is preparing to write off expenditures older than 60 days that cannot be substantiated or feasibly resolved.

SCO's Comment

The California Lottery concurs with the finding and is addressing the SCO's recommendation. We will verify the Lottery's corrective actions at a later date to determine implementation.

**REVIEW FINDING 10—
Inappropriate use of
state funds for non-
business-related
expenses**

As referenced in the background section of our “\$20 Billion to Education Employee Recognition Event” report dated March 26, 2008, the Lottery spent \$60,078 prior employee recognition events. Of that amount, \$19,395 was reimbursed through the office revolving fund for prior anniversary employee recognition events for the years 2002 through 2006. These costs were for rental of outside event setup items such as tents, tables, chairs, props, stages, costumes, and decorations. In addition, the Lottery purchased key chains, trophies, medals, gift cards, and catered food for the employees. These costs were originally reimbursed by the SCO because they appeared to be for normal types of promotional or employee meeting expenses. These costs were incurred for the employees’ benefit; therefore, these items do not fit the mission of the Lottery and are an inappropriate use of public funds.

The SCO recommended that the Lottery should establish policies and procedures such as those adopted by the Lottery Commission on May 20, 2008, to ensure that expenditures are for appropriate Lottery business-related expenses.

Lottery’s Action: Corrective action implemented.

The Lottery is following the established policies and procedures approved by the Lottery Commission to ensure that expenditures are for appropriate Lottery business-related expenses.

**REVIEW FINDING 11—
Inadequate review of
reimbursement travel
expense claims**

The Lottery did not follow procedures in place to ensure accurate processing of employee travel expense claims (TECs). We found errors in eight of the 403 TECs tested. The sample of 403 TECs represent approximately 4% of 8,559 TECs processed during our audit period. The eight errors resulted in unallowable reimbursement expenses totaling \$598.92.

The SCO recommended that the Lottery should ensure that it consistently follows appropriate review procedures to ensure that travel claims are accurately processed in accordance with applicable state laws and regulations.

Lottery’s Action: Corrective action implemented.

The Lottery ensured that it consistently follows appropriate review procedures to ensure that travel claims are accurately processed in accordance with applicable state laws and regulations.

**REVIEW FINDING 12—
No prior approval
obtained for excess
lodging costs**

The Lottery did not obtain prior approval from the Department of Personnel Administration (DPA) for excess lodging costs; one claim exceeded the State maximum rate by \$89. The Lottery asserted that it was exempt from obtaining DPA approval.

The SCO recommended that the Lottery should adhere to DPA rules unless it can provide the legal basis or evidence of DPA's approval for exemption from the requirement to obtain prior approval for excess lodging costs.

Lottery's Action: Corrective action implemented.

The Lottery is adhering to Department of Personnel Administration rules to obtain prior approval for excess lodging costs.

KPMG Draw Audit and Review Services Report (issued December 31, 2008)

**REVIEW FINDING 13—
Noncompliance with
established procedures
for approving contract
payments**

The Lottery did not follow invoice processing procedures for the KPMG contract. We tested three of the 27 KPMG contract invoices (9%) and noted that two of the three invoices did not contain the Lottery contract manager's signature and date as required for approval. In addition, we noted that the Lottery's Accounting Operations and Tax Bureau (AOTB) processed the invoices for payment without receiving approved/hard copy invoices.

The SCO recommended that the Lottery follow the procedures for approving invoices as outlined in the California State Lottery Contract Manager's Handbook, to ensure that payments are proper and legal and reduce the risk of making excessive payments to the contractor.

The Lottery staff stated in the initial response to the audit report dated December 31, 2008, that the key control for paying invoices at the Lottery is e-procurement. The hard copy-signed invoice provides a hard copy record, but is not considered a key control.

Lottery's Action: Corrective action not implemented.

The Lottery did not follow the procedures for approving invoices as outlined in the California State Lottery Contract Manager's Handbook to ensure that payments are proper and legal and reduce the risk of making excessive payments to the contractor.

California Lottery's Response

The Lottery will issue a memo reminding staff to follow the procedures for approving invoices as outlined in the California State Lottery California State Lottery Contract Manager's Handbook. In addition, the invoice approval process will be highlighted in future Contract Manager training sessions.

SCO's Comment

The California Lottery concurs with the finding and is in the process of addressing the SCO's recommendation.

Cal-Card Program Report (issued February 11, 2009)

REVIEW FINDING 14— Cardholders made purchases that were prohibited

The Lottery did not follow the Cal-Card procedures regarding prohibited uses. We identified prohibited uses of the Cal-Card for purchases totaling \$11,789. The Lottery VISA Cal-Card User Guide prohibits the cardholder from using the card for non-work related/personal items, and training classes.

The SCO recommended that the approving Lottery officials should carefully review the vendor receipts and supporting documentation to ensure the purchases are proper and supported. This review process will ensure cardholders' compliance with Lottery's policies and will address any improper use of the card.

Lottery's Action: Corrective action implemented.

Lottery officials review the vendor receipts and supporting documentation to ensure purchases are proper and supported.

REVIEW FINDING 15— Cardholders improperly split purchase transactions to avoid purchase limits

The audit disclosed that four Cal-Card transactions totaling \$7,473 were split to avoid single purchase limits defined in the DGS Procurement Manual and the Lottery Cal-Card Manual. The Lottery did not have any documentation to authorize the split purchases.

The SCO recommended that the Lottery should strengthen the Cal-Card statement review process to detect instances where cardholders are splitting purchases to circumvent spending limits. In addition, cardholders and approving officials should ensure that purchases do not exceed established spending limits.

Lottery's Action: Corrective action implemented.

The Lottery strengthened the Cal-Card statement review process to detect instances where cardholders are splitting purchases to circumvent spending limits.

REVIEW FINDING 16— Approval for increased Cal-Card limits not maintained

The audit disclosed that four of the ten (40%) employee-issued Cal-Cards tested did not show documentation supporting credit limits higher than the initial \$2,000, 30-day limit set by the Lottery.

The SCO recommended that the Lottery should ensure that each cardholder's file contains a set of standardized forms and supporting documentation identifying the cardholder's purchase limit, which should include any card limit increases.

Lottery's Action: Corrective action implemented.

The Lottery is ensuring that each cardholder's file contains a set of standardized forms and supporting documentation identifying the cardholder's purchase limit, and any card limit increases.

Fleet Management Program Report (issued March 27, 2009)

REVIEW FINDING 17— Noncompliance with Lottery vehicle accident procedures

The audit disclosed that the Lottery did not comply with vehicle accident procedures noted in the Lottery Vehicle Accident Procedures Memorandum dated August 10, 2005. We found instances of noncompliance in 19 of 24 (79%) accident files tested. The sample of 24 accident files tested represented approximately 26% of 91 accidents reported during our audit period. Several of the 19 accident files tested had more than one noncompliance issue.

The SCO recommended that the Lottery officials should ensure that Lottery drivers and their supervisors comply with Lottery vehicle accident procedures. Officials should require that the Accident Report (Std. 270) and Vehicle Accident Investigation Report (CSL 0938) are properly completed within 48 hours, pictures of any damages to the vehicle are taken, and two estimates are provided within seven to ten days of the date of the accident.

Lottery's Action: Corrective action partially implemented.

Lottery officials are ensuring that the Accident Report (Std. 270) and Vehicle Accident Investigation Report (CSL 0938) are properly completed within 48 hours. However, four (4) of the six (6) did not have repair estimates on file. The estimates are required within 7 to 10 days of the date of the accident.

California Lottery's Response

Since the exit conference in December 2010, the Lottery's Fleet Management Unit (FMU) began visiting district offices to train drivers on proper Lottery vehicle procedures, including accident reporting requirements. The FMU also developed and implemented a form to obtain missing information on future accidents.

SCO's Comment

The California Lottery concurs with the finding and is addressing the SCO's recommendation. We will review the Lottery's corrective actions at a later date to determine implementation.

**REVIEW FINDING 18—
Evidence of proper
vehicle assignment
authorization not on file**

The audit disclosed that the Fleet Management Unit (FMU) did not comply with requirements contained in the Lottery Administrative Manual for the monitoring, tracking, and approving of vehicle assignments. The Driver/Vehicle Transfer Report (CSL 1113) is used to initiate vehicle assignments. The form does not include a space for Division Director approval. The majority of vehicle assignments are long-term assignments to district sales representatives and security personnel.

The SCO recommended that the FMU should initiate a follow-up procedure, as it agreed to do after the Lottery's Internal Audits report, to ensure that the Driver/Vehicle Transfer Report (CSL 1113) is properly approved, received, and included in FMU files.

Lottery's Action: Corrective action implemented.

The Lottery's Fleet Management Unit ensured that the Driver/Vehicle Transfer Report (CSL 1113) is properly approved, received, and included in their files.

**REVIEW FINDING 19—
Irregular fuel card
purchases**

Lottery drivers improperly used the Voyager fuel card, resulting in a misuse of Lottery funds. The Voyager card was not used in compliance with provisions set forth in the Fleet Management Operations Booklet.

The SCO recommended that the Lottery should complete a monthly review of the Voyager card fuel report to identify any irregular fuel card purchases.

Lottery's Action: Corrective action implemented.

The Lottery now regularly reviews the Voyager card fuel report to identify any irregular fuel card purchases.

**REVIEW FINDING 20—
Lottery does not properly
track employees to
ensure that they have
completed defensive
drivers training**

The Lottery did not comply with the requirement that drivers on official State business must complete defensive driver training. We sampled 44 of 221 (20%) fleet driver files to determine if the fleet drivers had completed defensive driver training. In five driver files tested, the Lottery did not have evidence that drivers had completed defensive driver training every four years.

The SCO recommended that the Lottery should ensure that all Lottery fleet personnel who conduct official State business while driving a private or State vehicle have completed defensive driver training once every four years.

Lottery's Action: Corrective action implemented.

The Lottery is now complying with the requirement that drivers on official state business must complete defensive driver training.

**Attachment—
California Lottery’s
Response to Draft Report**

600 North Tenth Street
Sacramento, CA 95811
calottery.com



May 16, 2011

Jeffrey V. Brownfield, Chief
Division of Audits
State Controller's Office
Post Office Box 942850
Sacramento, California 94250-5874

Re: Implementation of State Controller's Office Audit Recommendations

Dear Mr. Brownfield:

The California State Lottery (Lottery) offers the following general comments and specific points regarding the recently concluded audit conducted by the State Controller's Office (SCO). The audit scope included following up on the Lottery's implementation of past SCO audit recommendations.

We are pleased that the SCO found the majority of audit recommendations implemented. The current draft report lists five recommendations that remain to be fully implemented. The SCO recommends that the Lottery fully implement these recommendations. Since the exit conference on December 20, 2010 the Lottery implemented three of the remaining recommendations noted below.

REVIEW FINDING 4

The report stated that the Lottery did not perform an inventory count in the audio-visual room. Also, the Lottery did not conduct a periodic search for assets purchased with credit cards by reviewing the supporting documentation for credit card purchases kept by Accounting Operations & Tax Bureau (AOTB).

RESPONSE:

Since the exit conference in December 2010 an inventory of the audio-visual room has been completed by the Lottery's Division of Operations. The inventory was verified and recorded.

Jeffrey V. Brownfield
May 16, 2011
Page 2

The Lottery's Contracts and Procurement Services Section (CPSS) reviews all credit card statements and flags property that appears to meet asset inventory requirements. This information is then communicated to the purchasing program and AOTB for their review and processing for tagging.

REVIEW FINDING 5

The report stated that the Lottery did not create a general ledger report that details all acquisitions containing assets that have been designated "required to be tagged." The report should be used to reconcile asset acquisitions to the Division of Operations' Capital Asset Tracking System (CAT System).

RESPONSE:

The Lottery's Division of Operations Division and Division of Finance are in the process of modifying the financial system (Epicor) to track assets. This modification will replace the Division of Operations' CAT System currently used to track assets, thereby eliminating the need to reconcile the two systems. When this modification is completed a physical inventory of all Lottery assets will be performed. This modification is scheduled for completion by October 2011.

REVIEW FINDING 9

The report stated that the Lottery did not schedule unscheduled revolving expenditures for reimbursement or if necessary submit them as a write-off to the Board of Control.

RESPONSE:

The Lottery has updated its procedures for reconciling the Office Revolving Fund, provided comprehensive training to staff involved in the payment process, developed a new management report that tracks compliance with established performance standards and procedures, increased review of monthly aged revolving fund vouchers and exceptions, and refined its approval process for the use of the revolving fund. As of October 31, 2010 approximately half of the \$46,190 in unscheduled vouchers has been cleared. The Lottery is preparing to write off expenditures older than 60 days that cannot be substantiated or feasibly resolved.

REVIEW FINDING 13

The report stated that the Lottery did not follow the procedures for approving invoices as outlined in the California State Lottery Contract Manager's Handbook to ensure that payments are proper and legal and to reduce the risk of making excessive payments to the contractor.

RESPONSE:

The Lottery will issue a memo reminding staff to follow the procedures for approving invoices as outlined in the California State Lottery Contract Manager's Handbook. In addition, the invoice approval process will be highlighted in future Contract Manager training sessions.

Jeffrey V. Brownfield
May 16, 2011
Page 3

REVIEW FINDING 17

The report stated that the audit disclosed that the Lottery officials ensure that the Accident Report (Std. 270) and Vehicle Accident Investigation Report (CSL 0938) are properly completed within 48 hours. However, our review disclosed that four of the six files did not have repair estimates on file. The estimates are required within seven to ten days of the date of the accident

RESPONSE:

Since the exit conference in December 2010 the Lottery's Fleet Management Unit (FMU) began visiting district offices to train drivers on proper Lottery vehicle procedures, including accident reporting requirements. The FMU also developed and implemented a form to obtain missing information on future accidents.

If you have any additional questions, please contact my Audit Chief, Roberto Zavala at (916) 323-7156.

Sincerely,

A handwritten signature in black ink, appearing to read 'Linh Nguyen', with a long horizontal flourish extending to the right.

Linh Nguyen
Acting Director

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

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